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ABSTRACT

This book contains a detailed description of the challenges faced by educational finance and budgeting in Cambodia. Until recently, educational financing took the form of emergency budgets and was limited to government planning for teacher salaries and costs of examinations. There has been a general lack of coordination between provinces and the central government in education finance and budgeting. The report is organized into five sections: (1) "Introduction" includes general background information on Cambodia and its education system; (2) "Financial Issues in Cambodian Education" addresses macroeconomic and broad issues, budget issues, internal finance issues, patterns and trends in education spending, and disbursement performance for education from 1996 to 1999; (3) "Procedures of Budget Preparation in Cambodia" discusses the general framework of procedures for budget preparation; (4) "Procedures of Budget Implementation" describes the general procedures for budget implementation; and (5) "Recommendation" contains 10 specific recommendations for improving the education budgeting process. Also included in the report are 10 appendices that generally supplement the text with graphs, charts, tables, and outlines of procedures. (WFA)

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IIEP research and studies programme

Financial management of education systems

Educational financing and budgeting in Cambodia

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International Institute for Educational Planning

Financial management of education systems

Educational financing and budgeting in Cambodia

Duy Pheng, Hang Sovonn and Yos Soly

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International Institute for Educational Planning

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LIST OF ABBREVIATIONS

CDC	Cambodian development co-operation
CM or COM	Council of Ministers
DC	Domestic canvassing
DCB	Domestic competitive bidding
DP or DCo	Direct purchase or Direct contracting
DPP	Department of Public Procurement
EFD	External Finance Department
ESDP	Economic and social development planning
GDP	Gross domestic product
ICB	International competitive bidding
IO	International organization
IS	International shopping
LM	Line of Ministry
MoEF or MEF	Ministry of Economy and Finance
MoEYS	Ministry of Education, Youth and Sports
MOP	Ministry of Planning
NBC	National Bank of Cambodia
PAP	Priority action programme
PEAC	Procurement Evaluation and Assessment Committee
PEP	Public expenditure programme
PIP	Priority investment programme
PO	Payment order
PTTC	Professional and teacher training college
PU	Procurement Unit
WFP	Work and Financial Plan

SUMMARY

This report was prepared within an IIEP project on analysis of budgetary procedures for education in three low-income developing countries of South-East Asia (Lao PDR, Cambodia and Viet Nam).

The project was funded with the support from the *Conferenza Episcopale Italiana*, Rome, for which all participants express their cordial thanks. At the IIEP, Paris, the project was co-ordinated by Serge Peano and Igor Kitaev, Programme Specialists.

The three neighbouring countries in South-East Asia share many similar concerns in the area of educational finance and budgeting as they proceed from the centrally-planned type of economy to a market-based economy:

- low shares of education expenditure in GDP (less than 3 per cent) and government budgets (less than 15 per cent). In practical terms it means the heavy burden of parent and community contributions in labour, in kind and lastly in cash for running the schools and motivating the teachers;
- a very low level of teacher salaries (US$10-15 per month in Lao PDR and Cambodia, US$30-40 per month in Viet Nam);
- the real allocation of funds for education is based on available funds and not on needs;
- the lack of own funding and the overwhelming dependency on foreign donors for capital and development expenditure (school construction, textbooks, teacher training etc.). The related donor conditionality 'ties' the receipt of donor support to application

of unpopular and counterproductive measures ('freeze' and cuts in employment and remuneration of civil service, 'tied' purchase of foreign equipment without spare parts or maintenance, foreign consultants imposed on the government, 'counterpart funding requested from the recipient government etc.);

- incremental nature of educational budgeting based on historical figures instead of evaluation of expected impact and outcomes;
- inadequate transparency of budget nomenclature when the bulk of the budget is consumed by staff expenditure;
- no knowledge of *real* unit cost of education expenditure per student per level of instruction;
- the absence monitoring instruments on actual budget implementation *during* the fiscal year which causes large differences between the approved and actual budgets;
- sound teacher management and control over teacher remuneration are non-existent. Teachers are over concentrated in major urban areas but are in desperate deficit or physically absent in rural and remote zones;
- huge disparities in actual funding between provinces and regions *within* each country.

At present the three countries are passing through a period of systemic changes in the educational systems in terms of their management and funding. However, budgetary procedures for education remained intact for many years and require serious updating.

There is a need to review budgetary procedures for public education funding with a view of the processes of decentralization, financial diversification and the role of international financial

organizations and donors in education development. The IIEP project was of interest to the participating countries because the changes introduced by the Asian Development Bank and the World Bank in educational management are already underway in Viet Nam and are being discussed in Cambodia and Lao PDR.

It was evident that there are a number of problem areas and weaknesses in existing budgetary procedures for education in the countries concerned. The major problem is that they do not stimulate prioritization of expenditure and its reallocation between the levels of instruction, different provinces and functional categories of spending. For the moment, all three countries still practice incremental type of budgeting with global ceilings which simply reproduces the same patterns of expenditure from year to year (only Viet Nam began using special target funding programmes for radical improvements in selected areas). In reality that means that budget is designed to cover mostly the wage bill of staff while the rest is considered secondary and subject to cuts and delays in disbursement.

There are differences between approved and actually implemented budgets; the consolidated budget nomenclature is not sufficiently transparent; procedures for capital expenditure are cumbersome but not efficient, budget estimates based on population or enrolment do not take into account regional disparities; central ministries of education do not have modalities to monitor the budget implementation during the fiscal year, etc.

The role of provincial authorities in educational budget preparation and implementation radically increased with the decentralization processes in all three countries concerned. Provincial governors and their planning, financial and educational offices have overwhelming responsibilities for management and financing of primary and lower secondary education. All three countries observed that this situation does not facilitate reallocation

of funds between rich and poor provinces and leads to under funding of the latter because there is no fair research and formula based method of educational funds distribution at the central level.

In addition, each country has its own specific features and constraints.

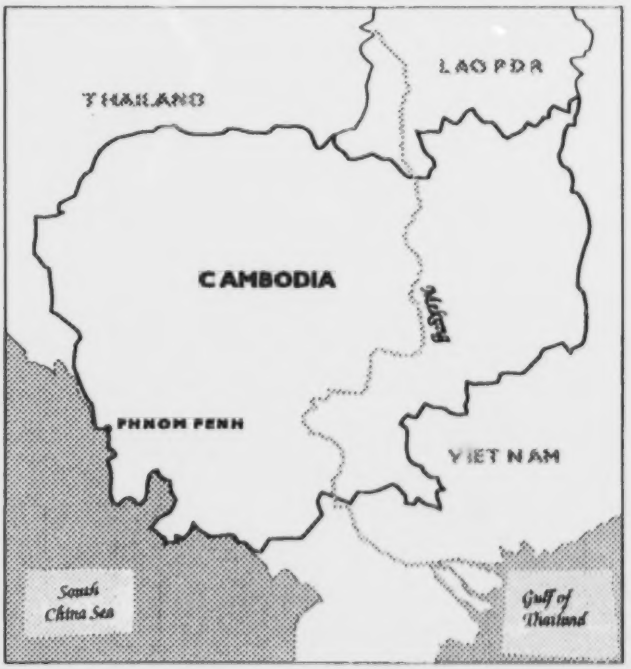
This report provides a detailed description of challenges for educational finance and budgeting in Cambodia. The nightmarish past of the country makes it a special case for any comparative analysis. The huge potential of its human resources is yet to be discovered and restored, hence the desperate demand for education development and its financing.

In Cambodia, each budget until recent had an emergency nature, while the government planned expenditure only for teacher salaries and examination expenses. For this reason the budget nomenclature looks rudimentary and the majority of items are blank. As in Laos, the nomenclature is not transparent and does not allow for cost-analysis and knowledge of unit costs by level of education. There is a lack of coordination between the provinces and the central Ministry of Education, Youth and Sports at the stage of budget preparation. Parents and communities have to cover all operational and maintenance costs of running the schools.

On the other hand, the country was usually inundated with foreign funds for education rehabilitation and development, which by now caused a 'donor fatigue' (i.e. the donor funding of education far exceeds the government own funding but the visible effect of donor intervention is seen mostly in the volume of consultants' contracts), as well as the local staff habit to rely on donors for many expenditure needs. There is a lack of flexibility in budget implementation as even minor re-allocations require authorisation of the Ministry of Finance. At present 2/3 of schools do not have water

and other basic facilities and operate in double and triple shifts, while many schools have to use pagodas for premises. The systems is plagued by teacher absenteeism as many teachers have second jobs bringing them more income.

Map of Cambodia



Land area	*181,035 square km*
Number of provinces and municipalities	*24*
Number of Districts and Precincts	*184*
Number of Communes	*1,609*
Climate	*Warm and humid*
Average annual temperature	*28.5 ° C or 83.3 ° F*
Seasons	*6 months dry season; November to April* *6 months rainy season; May to October*
Population	*11.4 million (National Census, March 1998)*
Households	*2.188 million*
Size of family	*5.2*
Density of population	*64*

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I. INTRODUCTION

1. General background

Natural environment

Cambodia, a country situated in South-East Asia, shares borders with Viet Nam, Lao PDR and Thailand. Cambodia has 440 kilometres of coastal border facing the Gulf of Siam. With a total area of 181,035 square kilometres, the country is about one-third the size of Thailand, or 293 times larger than Singapore.

Administratively, the country comprises 20 provinces and 4 municipalities.

The Constitutional Assembly was re-established following the United Nations-sponsored general elections held in 1993. The Constitutional Assembly develops new laws for the country, with the King as Head of State. Citizens exercise their rights through the National Assembly, the Royal Government and the Courts.

Following the second general election, organized by the National Commission for Elections in July 1998, the new National Assembly amended the Constitution and paved the way for the creation of a new legislative body – the Senate, comprising 61 members.

The Cabinet is led by the Prime Minister, assisted by Deputy Prime Ministers, along with State Ministers, Ministers and Secretaries of State. All members of the Royal Government take collective responsibility for the general policy of the Royal Government before the Assembly.

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The Judiciary is an independent power. The authority of the Judiciary is granted to the Supreme Court and to the lower courts of all sectors and levels. The King is the guarantor of the independence of the Judiciary.

Population and economy

According to the national census of March 1998, Cambodia has a total population of 11.4 million, of which 51.78 per cent are women. The majority of the population lives in rural areas and on agricultural production. Only 15.7 per cent of the total population resides in urban areas or towns. The country has an estimated annual population growth rate of 2.49 per cent.

It is estimated that the GDP rises between 5 and 7.5 per cent per annum. However, GDP in 1997 and 1998 was notably low. According to economists, GDP per capita is US$286 per annum. Tax revenues collected by the government are very low and equal only 5.9 per cent of the country's GDP.

2. Education system

Structure of the education system

The Ministry of Education, Youth and Sports (MoEYS) is one of the largest civil ministries. The total number of teaching and non-teaching staff at all levels is about 85,000, or more than half the total number of civil servants in the country. In Education there are four levels of hierarchy:

- at central level, senior officials taking responsibility for policy making and education competencies comprised of four general departments and one general Inspectorate with 21 technical departments;

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- twenty-four provincial and municipal education services are each headed by a Director; Deputy directors and their technical offices follow the central department structure;

- the district education office supervises all primary schools in the district, and the provincial/municipal education service mainly provides technical guidance to secondary schools in the province;

- at the grass-roots level is the school, which implements all Ministry guidelines.

Policies on education development

The Ministry of Education, Youth and Sports defines three major policies:

- making nine years of basic general education available throughout the country, and developing new opportunities for functional literacy;

- modernizing and improving the quality of the education system through effective reforms;

- Linking education and training development with the socio-economic requirements of the labour market.

3. Current education development

In Cambodia, schools were re-opened in early 1979 after the collapse of the Khmer Rouge regime. Through the combined efforts of the community, local authorities and the Ministry, an education system was re-established.

In the 1998-1999 school year, the country had a total of 5,156 primary schools, 355 lower-secondary schools and 132 upper-secondary schools. Of the primary schools, only 51.7 per cent had the complete range of grades (Grades 1 through 6) for the primary cycle.

Due to budget constraints, there is little hope of ensuring equal opportunity for every child to receive a nine-year basic education in the very near future. Problems are still found in the education network, such as poor education service delivery and the widening gap in education quality between urban schools and rural or remote schools.

Because of poverty, shortage of labour in the family and the lower level of education, certain segments of the population believe that education is not imperative either for themselves or for their families.

▩ Curriculum reform and expansion of the system

Political and socio-economic changes have led to successive reforms of the country's education system. Before 1975, the country adopted a French-based education system that required 13 years of education (6 + 4 + 2 + 1) with four or five major examinations. After 1979, the Ministry of Education, in consideration of the country's urgent needs, introduced a 10-year education system (4 + 3 + 3) and later expanded it to an 11-year education system from 1986 to 1996.

The Ministry has continued to improve the quality of education by introducing gradually a new 12-year education system (6 + 3 + 3) in the 1996-1997 school year. The new system has increased the number of learning hours for every grade in the cycle of primary education.

Internal efficiency

The repetition rate in Grade 1 is very high (40.9 per cent) while the promotion rate is 48.4 per cent. In general, Grade 1 students have the highest repetition rate.

In the current school year, drop-out rates are very high, especially in Grade 1, Grade 2 and Grade 3 at 10.7 per cent, 14.0 per cent and 14.1 per cent respectively.

The pupil/teacher ratio is about 48 to 1 nationwide, but only 37 to 1 in urban primary schools. The shortage of classrooms is very critical for schools in the urban areas, at 87.3 pupils per classroom, forcing some schools to conduct three shifts per day.

The new strategy recognizes the need for flexibility in the ongoing process of sector review and planning, with emphasis on:

- more decentralization and bottom-up planning;
- more account to be taken of the best interests of children – making schools, teachers and the system more child-friendly;
- more co-ordination among the projects.

Non-formal education

In parallel with the development of the formal education system, the MoEYS also focuses on the non-formal education system, which is an indispensable component of the education system, particularly in the attempt to increase literacy rates.

The literacy rate of those 15 years and over is 67 per cent. However, the literacy rate in rural and remote areas is far lower than in the towns.

- Higher education

The General Department of Higher and Technical Education and Vocational Training is in charge of co-ordinating higher education development, while concerned ministries handle management aspects by their respective specialization. The Ministry of Education, Youth and Sports directly supervises six higher-education institutions and the Ministries of Health, Agriculture and Culture and Fine Arts supervise three others.

Finance and community participation in education

As Buddhists, Cambodians have a long tradition of organizing festivals to help towards the cost of building pagodas, schools and roads. After the collapse of the Pol Pot regime, the Cambodian people enthusiastically made large contributions, according to their own means and resources, towards the construction of schools to benefit the local community.

Education surveys have shown that Cambodia is one of the countries in the world in which a very high proportion of the resources for primary education comes from the local community. This has perhaps resulted from the fact that the Cambodian people had suffered greatly through a murderous regime, thus boosting their desire to restore their country's education system.

To keep schools functioning well, the community has to, through 'parents' associations' or 'school supporting committees', raise funds to cover not only the recurrent expenses, but also to sponsor all sport and art activities.

The national budget for education can cover only staff salaries (teachers and education administrators) and a small part of recurrent expenditures incurred by central and provincial levels. For the

academic year 1998-1999, the government allocated 127 billion riels (about US$33 million at the current exchange rate) to the education sector, representing 8.3 per cent of the national budget.

The main objective of the government's education policy is to improve the quality of education and the efficiency of educational planning and management. The improvement of the quality of basic education would be achieved with the assistance of the such as ADB, WB, United Nations organizations including UNICEF, UNDP, UNESCO, UNFPA, bilateral donors and NGOs.

In most cases, donors themselves are the administrators of these aid projects and entrust their consultants or certain organizations with the management and execution of the project.

II. FINANCIAL ISSUES IN CAMBODIAN EDUCATION

1. Introduction

The range of issues that can be described as financial is very broad. They can range from technical, accounting issues to high-level policy. Many of the 'technical issues' in improving education, such as teaching time, availability of classrooms and instructional material, deployment of qualified and motivated teaching staff, ultimately rest on a financial base. That is, resources must be available at a suitable level efficiently delivered before the technical inputs can be properly delivered. This paper will consider four sets of issues:

- macroeconomic and broad issues;
- budget issues;
- internal MoEYS issues;
- sectoral issues.

The paper raises a range of issues. Not all of them are equally important or urgent, nor are all of them soluble within the MoEYS. Neither are they all of equal priority. The paper does not attempt to provide solutions, but to identify issues that need debate if there is to be any meaningful attempt at financial reform.

2. Macroeconomic and broad issues

Relative allocations

Education receives a low share of funding, both in terms of government budgeted expenditure and total expenditure from all sources. The government has repeatedly made declarations that it

wishes to raise the share of education in the government budget to 15 per cent by 2000, however it has repeatedly failed to make realistic efforts to get close to this target.

During the period 1994-1997, education was budgeted to receive between 8.4 per cent and 9.6 per cent of total government spending. Real funding for education from government sources fell between 1995 and 1997. When all sources are taken into account education was due to receive between 2.3 per cent and 3.2 per cent of GDP for the same period. However, the government provided a minimum of the 'public' funds; in 1996, for example, it provided 37 per cent of the funding, with the remainder provided by external agencies.

Similarly, the social sector receives a low share of budgeted funds – during this period it was budgeted to receive about a fifth of the government funds (from 18.4 per cent in 1994 to 22.0 per cent in 1997). There was some growth in real terms in the period, but this had levelled by the end. For social services, again, the proportion contributed by the government to all public budgeted spending was less than half, i.e. external agencies supplied the bulk of the budgeted funds.

However, there are also wide disparities between budgeted amounts and the actual disbursement of funds. In the social services and education, actual expenditure is very often lower than the budgeted amounts. For non-wage expenditure in the period 1994-1997 the highest proportion received by the social services sector was 94 per cent (by contrast defence and security received 204 per cent in 1994 and 106 per cent in 1997).

Comparative allocations

The budgeted government expenditure of less than 1 per cent of GDP for education is very low by world standards. The average for Asian countries is 4.4 per cent. This results from low revenues as well as from low allocations.

Developing country comparison

- Shares of inputs

The government provides only a minority of the 'public' funds for education. However such funds themselves form only a small proportion of the total funds spent on education, as community members (including politicians and parents) provide the major sources of funding at lower levels of education, where the majority of students attend. In an extensive, but not representative, study of 85 primary schools, Bray (1999)[1] estimated that parents and communities contributed about 60 per cent of the resource inputs to Cambodian primary schools against a government contribution of less than 15 per cent and external agency support of about 18 per cent.

Comparative figures are not available for secondary and higher education, though the government consistently allocates more of its own funds to primary education and less on post secondary (including tertiary), than the external agencies. For example, 32 per cent of the government recurrent education budget was for secondary, while only 15 per cent of the total allocation from all 'public' sources was for secondary education. Government expenditure per pupil in 1996 was just over half of the public expenditure for primary pupils (53 per cent), four fifths for secondary

1. Bray, M. 1999. *The private costs of public schooling: household and community financing of primary education in Cambodia*. UNESCO/IIEP.

students (81 per cent) but only one eighth of that for tertiary students (12 per cent). While these figures represent an upper limit on the proportion of all expenditure that the government contributes to each sub-sector, as the case of primary shows, the real proportion may be much lower if there are substantial parental and community contributions.

3. Budget issues

There are a number of issues that arise simply from the budget process – the way in which the budget is developed, co-ordinated and implemented. In addition, the Budget Circular for the Budget 2000 introduced some radical reforms to budget management which have the potential to alter not only the processes, but also the basic thrust of development support for education in Cambodia. There appears to be a substantial gap between principles and practices in budget planning and management throughout government systems. This section will outline both, the principles and the reality as of today, in the education sector. It will also present a number of reforms undertaken by the MoEF and their implications for education budget planning and management.

Budget planning process

- Responsibilities

Responsibilities for education budget planning are, in principle, shared between all levels, from schools and institutions to the Ministry. Through the District Education Office, schools are expected to forward requests for inputs for consideration by the Provincial Education Department. The Education Department prepares the budget under the guidance of the Provincial Department of Finance and, in principle, in line with budget priorities set by MoEYS. The

Governor, who has been the Delegated Accounting Officer for all departmental budgets until this year 1999, is responsible for submission of the overall provincial budget to MoEF. Higher education institutions are directly under MoEYS' responsibility and submit their budget to the Ministry.

In reality, schools and Districts have no say in the budget preparation. They have little stake either, as provincial budgets for education provide for little else than salaries (94.5 per cent of the total provincial budget in 1999).

MoEYS Departments are involved in the budget preparation, in that they submit their estimates excluding Chapter 10 (wages), for which estimates are prepared by the Finance Department on the basis of information from the Personnel Department.

Issues:

- Budget responsibilities are not effective

Processes

In principle, MoEYS' budget preparation process starts with the circular issued by MoEF to all ministries and provinces; based on a revised macroeconomic framework enabling the MoEF to forecast budget ceilings for ministries, detailed in Sections and Chapters. This should happen in June, leaving July and August to the ministries and provinces to identify budget priorities and prepare budget submissions. September is set aside for budgetary conferences at technical level, where the budget proposals are discussed and first arbitrages are effected. Final arbitrages are at the level of the Council of Ministers.

A similar process should happen at provincial level, with the Finance Department consolidating and leading first arbitrages between provincial departmental estimates. In principle, the Provincial Education Department should discuss budget priorities with MoEYS, and forward to MoEYS a copy of its budget submission. The Governor endorses the provincial budget before sending it to MoEF.

The reality compares poorly with this theoretical process, starting with frequent delays in getting the budget call circular. It is unclear whether ceilings are effectively provided at this point in time, or later in the course of the discussions on the submissions.

Reportedly, MoEYS' submissions are unrealistic[2], technically weak and therefore difficult to defend. Although the MoEF has introduced the concept of programme-based budgeting in the last two years, MoEYS' submission for the budget 2000 was still an 'administrative budget'. Without an activity-oriented budget, there can be no meaningful discussion on priorities, which leaves MoEYS' Finance Department, in the first instance, then MoEF, with only the option of cutting non-salary bids, through arbitrary decisions.

MoEYS/MoEF discussions cover the Education central budget only.[3] MoEYS is not informed about the provinces' submissions, and provincial budgets are handled as a separate negotiation, of which MoEYS is informed only insofar as it receives the total Education provincial budget ceiling.

Personnel budgets are prepared on the basis of a pre-agreed establishment, in line with the number of new posts that MoEYS has

2. As an illustration, the MoEYS' submission for Section 1 – Education was 75 per cent higher than the approved budget for the Section in 1999.
3. As opposed to what is reported in the draft PER (paragraph 33 in Annex 4). It is likely that the PER reports the principles. This note reports the reality as described by MoEYS' officials.

requested earlier in the year. The prevailing policy is one of expansion of the teaching force, implemented outside of any budgetary consideration. New teaching posts are then allocated to provinces so that they can budget on this basis.

In parallel with the annual budget preparation, MoEYS' Planning Department prepares the Education PIP under MOP technical guidance. Education investment priorities are considered amongst those from all sectors, through discussions separate from the annual budget discussions and held by the PIP Steering Committee (MOP, MoEF, CDC and NBC). There is little co-ordination between the two processes at MoEYS' level.

Issues:

- ***The Education sector budget has no room for meaningful prioritization of activities as it is built as an accumulation of bids prepared independently from each other (MoEYS/Provincial budgets; recurrent/investment budgets; staff establishment and associated budget set first).***
- ***The separation in process and responsibilities for the sector annual budget and public investment plan preparation, leads to inconsistencies between priorities as spelled out in MoEYS' PIP, on the one side, and as reflected in MoEYS' annual budget submission on the other. The annual budget is not then real short-term operational planning within the PIP medium-term planning.***
- ***Owing to this separation there is no assessment of the sustainability of the current investment level.[4]***
- ***The budget is prepared as an administrative bid, by administrative machinery that seems unable to identify the outputs it aims at***

4. This is aggravated by the fact that large investments in the Education sector are not even included in the PIP, whereas they create medium- and long-term obligations for MoEYS (unplanned sector expansion).

producing and the activities it has to carry out, as the prime justification for requests for resources.

Budget layout and information

The printed and approved budget is contained in a three-volume budget book, with Volume 1 containing written and tabular analyses of the budget, Volume 2 the budgets by Ministry, and then by province, and Volume 3 the budgets by province and then by Ministry. The budget in Volume 2 for education is arranged by Section (Education, Higher Education, Youth and Sports, and Provinces), and by Line codes (Chapter, Article, Paragraph, Subparagraph). The line codes are based on economic functions (salaries, operational expenses, capital expenditure, etc.) rather than on activities.

No distinction is therefore made in the printed budget between even fundamental activities such as budgets for primary schools, lower and upper-secondary schools and district education offices. No information is available on Province budget layout.

Issues:

- *In its current presentation, the Education budget does not provide the information necessary for output/activity monitoring and technical analyses of public spending equity, efficiency and impact. The lack of technical analyses (by educational level, regions etc.) largely contributes to the weakness of the education budget submissions, thereby putting MoEYS (and, probably, provincial education departments) in a vulnerable position during the negotiations with MoEF.*

Budget implementation

Approval

The annual budget is operated through a monthly cash allocation process, with monthly allotments to the different spending agencies and budget lines being decided by MoEF. Allotments for salaries are generally in line with approved budgets (or higher in the case of salary increases decided in the course of the budget year, as in 1999). Under the cash constraint and the pressure of extra-budgetary decisions taken at political level, MoEF effects cuts on O&M and capital allotments, arbitrary in the sense that they are not discussed with the spending agencies. In addition, the early months of the financial year are usually marked by lower releases of funds.

Budget managers do not know for how long what they have received will have to last. Expenditure programming does not exist, and cannot exist in this context. At provincial level, expenditure requests for the education sector have to be approved by the Governor (as Delegated Accounting Officer) before being forwarded to the Department of Finance for control. The MoEYS is not involved in this process.

For the past few years line ministries have been able to operate part of their O&M allocation through a 'petty cash' system. This functions as an Imprest Account, replenished against submission of justifying documentation to MoEF.[5] All other requests for expenditures are processed through the Education Finance Controllers.[6] Approval of an expenditure request can take several weeks.

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5. The limit for expenditures through the petty cash system is fixed at 50,000 riels (approximately equivalent to US$120). The MoEYS' Finance Department estimates that roughly 30 per cent of the O&M expenditures are covered through this system.
6. The Financial Controller is a member of the MoEF staff who operates a control *a priori* on the request validity and on the availability of funds under the corresponding budget lines. As described in the PER draft (para. 4.14), the Financial Controller carries out a pre-audit based on expenditure consistency with budget allocation, accuracy of costing, availability of funds, compliance with budget laws and regulations, consistency with budget intent, and quality of supporting documentation.

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Issues:

- ***MoEYS budget management is highly centralized. Managers operate without 'budgetary visibility', and in a context of budgetary uncertainty, aggravated by the length, and potential for leakages, of the multi-layered, administrative system of 'a priori' control and authorization of expenditures.***

Disbursement

Except for the 'petty cash' expenditures, all payments for non-wage expenditures are made from the Treasury to the suppliers (there are provincial treasuries in a number of provinces).

Although in the course of the budget preparation, the MoEYS Finance Department uses forms that are more detailed in order to compile the submissions from the various departments under the three central sections, the actual budget, once approved, is not reseparated between the various departments. Thus neither the Department of Finance nor the individual departments and institutions know what the actual budget for any part of the Ministry is. It is in effect managed as three Section budgets once approved.

Individual Department heads know what they proposed at the beginning of the process but receive no further budget information. In submitting an individual request they therefore cannot tell whether it will, or can, be honoured. As a result, all spending decisions (that is, internally to MoEYS' central administration) are taken by the Finance Department upon approval by the Minister. This also applies for higher-education institutions, owing to MoEYS' practice of retaining all day-to-day decisions on budget management at the centre. As with MoEYS' departments, these institutions do not know what budget they have to operate under.

Issues:

- ***Discretion on Education spending priorities is largely outside of the hands of the Education managers (departments, institutions, MoEYS);***
- ***This creates a context in which it is hardly possible to instil a culture of budget management.***

■ Reallocation

Until the year 1999, the transfer process to switch funds between budget lines down to subparagraph had needed MoEF approval.

Issues:

- ***This totally inflexible system inhibits effective programme management, thereby further undermining the effective responsibilities of Education managers.***

■ Monitoring

In principle, regular reports from provinces, MoEYS and MoEF should enable monitoring of the Education budget execution. In practice, budget monitoring is rudimentary and highly centralized, as is the execution itself.

MoEYS' Finance Department records all operations, from request/commitment to effective spending, in individual files for each budget line. Petty cash expenditures are also reconciled against budget lines. The Department could therefore produce regular reports on actual education spending, although the present system does not identify the spending department. The fact that all systems are manual represents a serious obstacle to the production of reports. A second factor is the limited capacity of the staff in post. As a result, reports

on actual expenditure and analysis against budget are not regularly available in MoEYS: the Financial Controller compiles monthly reports but it is not clear whether these are circulated to MoEYS.

Department and Institutional heads therefore have access to the current or previous year's expenditure only if they manually compile successful requests for funds. As it is doubtful what, if any, use they would be to a head of department, it is doubtful if any compile such records.

Provincial education departments do not submit reports to MoEYS. Furthermore, in its present set-up the MoEYS' Finance Department does not have the capacity of monitoring provinces, should these submit financial and progress reports.

Projects usually operate through parallel systems. In general, for projects funded by donors and IO, expenditures must also be approved by the Minister of Education, Youth and Sports. From this point, there are almost as many options used for channelling funds at the various education management levels as there are projects.

Issues:

- *There is no system and no capacity in place for financial monitoring;*
- *The administrative bookkeeping system in place does not allow the distribution of expenditures of various kinds by education level, specific function or programme, institution or region to be known;*
- *This (internally) centralized budget management system, roughly based on a 'first asking first served' principle, does not permit internal, in-year prioritization/re-prioritization of activities amongst departments, institutions etc.*

Budget reforms

The MEF has recently put in place, or intended to do so as part of the Budget Law for the year 2000, a number of major budget reforms which will create far-reaching opportunities for the education sector. The reform's main objectives are the establishment of operational modalities that will:

- secure government resources, in a medium-term perspective, for high priority, policy-led programmes;
- achieve well-identified, key-sector development objectives;
- increase effective spending discretion through sector managers;
- enhance technical efficiency in resource allocation throughout implementation of the sector programmes.[7]

Priority Action Programmes

There will be a new budget Chapter 13 in each Ministry/province vote which will contain one-line summaries of special programmes. Sector ministries and provinces may present a number of special programmes ('Priority Action Programmes' or PAPs) corresponding to agreed sectoral policy priorities in Chapter 13. These programmes will be allocated a global resource envelope which could include both investment and recurrent expenditures (excluding salaries for this first phase of reform). They will be detailed in an annual activity plan indicating policy objectives and outputs. Appropriations to the PAPs will be guaranteed by MoEF and protected from cuts. Releases will be quarterly and in advance, further releases taking place against submission of quarterly financial reports to the MEF Financial Controller, and of six-monthly progress reports. In the first instance, 20 to 30 per cent of the total MoEYS budget could be placed in Chapter 13.

7. A number of the reforms outlined in the following sections still require final approval by the Minister of Economy and Finance, and passing through the budget approval by the Assembly for some of them (e.g. PEP Medium-Term Framework).

- Budget Management Centres

Budget Management Centres will manage the PAPs against the agreed outputs in the programmes. These centres will be located within the sector structure and correspond to operational units, such as a Department in the Ministry or a Provincial Education Office. The system will grant extended powers to budget managers, who will be permitted to allocate resources in line with the programme needs as dictated by the actual implementation. This calls for well-identified budgetary and financial responsibilities.

- Enhanced budget integration and sectoral discretion

Effective from 2000 onwards, the Delegated Accounting Officer for the Education provincial budget will be the Head of the Provincial Education Department and not the Provincial Governor. This will apply to all sectors with provincial offices. This provides a strong opportunity for MoEYS to enhance the integration of the education budget at national and provincial levels, through joint priority identification and closer monitoring of the provincial levels.

- Medium-term perspectives in resource use and availability

The MEF developed for the Budget 2000 a first medium-term Public Expenditure Programme (PEP) covering a period of four years (2000-2003). The Assembly would approve the PEP together with the annual budget, which provides an overall government budget framework, for the year 2000 and, although it has no prescriptive power for subsequent years, it indicates government's policy commitments in the medium term. This medium-term-framework includes forecasts for sectoral allocations from government's own resources (recurrent and investment integrated forecasts). Within this indicative resource envelope, it is now the MoEYS' responsibility

to identify priorities, and develop and cost corresponding medium-term development programmes.

Extension of the power of the Budget Manager

The Minister, acting as Budget Manager (organizer), will have enhanced power from Budget 2000 to use the Decision-making, to make any changes within Chapters in the Ministry budget to meet the needs of the Ministry. This will apply in the first instance to five Ministries, of which MoEYS is one. This will provide much greater flexibility to set and modify allocations in the budget.

Opportunities

There are strong incentives in fully utilizing the opportunities provided through these reforms. These major changes to budget operation clearly represent a set of major opportunities for the Education sector, provided that MOEYS overcomes a set of existing constraints. The Ministry will have the opportunity to:

- Raise and channel additional donor funding for the MoEYS' PAPs because of the extra security and assurance that such channels produce, with quarterly reporting and tranching. The system establishes the management and monitoring framework that would be required by most donors, and provides opportunities to use either project or budget-support funding arrangements.

- Link the current sector review process to budget reform as an instrument of implementation. Clearly the identification of medium-term, policy-led priority programmes ought to be an outcome of the sector policy review recently undertaken by MoEYS. These will then be an input to the development of the next budget incorporating a set of PAPs.

- Revitalize the dialogue between MoEYS and the donor community. Sustaining this dialogue throughout the policy review will ensure that priorities are discussed and endorsed by donors at an early stage, which should ease resource mobilization.

- Co-ordinate the Central and Provincial budgets of MoEYS. If priority programmes and budget management centres involve provincial (or lower level) offices and institutions, this will provide a strong incentive to plan and integrate the budget for both Central and Provincial departments.

- Provide through the second ESDP a shift towards policy-led development programmes. The year 2000 would see the end of the country's first Socio-Economic Development Plan. In progressive contrast with the early 90s' emergency/reconstruction phase, the development of this second Plan will be a chance for all sectors to design and put in place innovative approaches.

4. Internal finance issues

Provincial allocations

Over the past four years the Provincial sector in education has received about three quarters of the budget (76 per cent in 1996 to 75 per cent projected in 2000). In nominal riels this has ranged from 65 billion in 1996 to a projected 129 billion in 2000. Actual expenditure, however, has exceeded the budget in each year since 1996 and was running at 110 per cent in 1999.[8] This is in sharp contrast to the remainder of the Ministry, which has typically had much lower actual expenditure than budgeted.

8. As a percentage of 8/12 of the budget expenditure to the end of August 1999.

Within the provincial budget the great majority of the budgeted allocation is for salaries (about 93 per cent consistently across the period), with a further 5 per cent allocated to operations (Chapter 11). However, the pattern of actual expenditure is somewhat different. There has been a fairly consistent underspending on salaries throughout the period 1996 to 1999 of about 5 per cent of the budget. On the other hand, the operations expenditure in Chapter 11 has been much higher than budgeted. Typically, well over double (and sometimes nearly triple) the amount budgeted was expended in this Chapter. The pattern in Education is therefore very different to that in Health, which has had consistent problems in the disbursement of operational funds at the provincial level.

Further detailed analysis would be necessary to demonstrate why salaries are underspent, and operations overspent, and how provincial budgets are allowed to overrun the budget so much. Province-by-province figures are being sought for further analysis of this problem.

5. Patterns and trends in education spending

Overall education aid spending/commitments appear to have almost met the original overall volume targets: spending information available indicates that actual external assistance over 1995/1999 was around US$193 million, roughly 91 per cent of the target (see *Table 1*). The spending on primary/secondary schooling (including non-formal and teacher training) has been around US$123 million, compared to the projected requirement of US$139 million (88 per cent of the target). For the other sub-sectors (e.g. TVET/higher) the actual spending has totalled US$71 million compared to US$73 million

projected. It needs to be recognized that the figures are somewhat distorted by difficulties in allocating technical/managerial training categories.

Table 1. Projected and actual spending: 1995-1999

Sub-sector	Projected (P) US$ million	Actual (A) US$ million	Ratio (A/P) (%)
Pre/Primary schooling	46.0	75.2	164
Secondary schooling	34.8	18.6	53
University/Tertiary schooling	38.1	22.8	60
Technical/Vocational training	21.7	44.8	207
Teacher training	35.5	21.2	60
Non-formal/Literacy	10.1	4.3	43
Sector Planning/Management	25.4	6.3	25
Total	211.6	193.2	91

Source: MoEYS.

Notes

1. Grade 1-9 programmes split Grades 1-6 (Primary), Grades 7-9 (Secondary).
2. Technical/Vocational includes technical managerial training and youth sports.

There have been significant disparities between sub-sectoral projected and actual budgeted expenditure. The most striking is the massive overspend for technical/vocational education, due in part to significant pipeline commitments from 1993 (e.g. ADB, foreign donor-supported projects), and some difficulties in distinguishing between technical and university education. There has also been a pattern of support for primary education being significantly greater than originally projected. This appears to be largely due to underestimates of programme costs, especially for school construction/rehabilitation and textbook supply, rather than expansion of projected requirements.

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The spending on secondary education is roughly half of the original projected needs. The underspending is primarily due to MoEYS and donors giving priority to primary education support within existing aid budget limits. A second consideration has been government/donor concerns over improving primary-education quality before significant secondary-level support, in order to minimize wastage higher up the system. Despite a shift in donor policy towards linking poverty alleviation with rural education provision, non-formal education/literary concerns have continued to suffer from lack of MoEYS/donor support.

Table 2. Patterns of government recurrent budget and project spending, 1995-1999

Sub-sector	Government Budget (B) US$ million	Project spending (P) US$ million	Ratio (B/P) %	Total US$ million
Pre/Primary schooling	833	75.2	111	158.5
Secondary schooling	46.9	18.6	252	65.5
University/ Tertiary schooling	6.8	22.8	30	29.6
Technical/ Vocational training;	2.8	44.8	6	47.6
Teacher training	2.1	21.2	10	23.3
Non-formal/Literacy	2.0	4.3	47	6.3
Sector planning/ Management	3.6	6.3	57	9.9
Total	147.5	193.2	76	340.7

Source: MoEYS.

Assuring sustainability of the long-term outcomes and benefits of the project investments over the period requires appropriate operational budget support from Government. *Table 2* shows some disparities between apparent government priorities and investment spending. In the case of secondary education (spending ratio 2.5),

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government spending priorities widely diverge from patterns of donor support. In the case of post-secondary education, the government/project spending ratio is around 0.2, raising concerns over the long-term sustainability of extensive capital investments.

In broader terms, the overall sub-sectoral spending shares have been close to indicative 1995 targets. The spending on primary/secondary education (including teacher training) has totalled US$247 million (72 per cent share). Although the apparent imbalance between recurrent and development project spending is in part due to initial capital investments, continuation of these imbalances reinforces sustainability concerns. In addition, in many instances (e.g. teacher training, instructional materials), much of the project spending is supporting day-to-day operational costs normally covered by government's own discretionary spending.

The short to medium-term aid financing outlook is less promising. Expenditure over the period 1996/1999 has been an indicative US$57 million. This represents a slowdown compared to the period 1993/1995. The aid pipeline for the period 2000 to 2002 shows a further decline from around US$40 million in 2000 to only US$10 million in 2002. In part the projected education aid decline may be due to government and donors' aid programming cycles. At the same time, the lack of forward aid commitments is due to relatively disappointing sector performance in terms of achieving original Plan outcomes and targets.

Activity coverage and policy progress assessment

As part of this progress review, an indicative assessment and rating was undertaken covering two dimensions. The first dimension (see *Table 3*) concerned the activity coverage undertaken for the various programmes over the period 1995-1999. This included the volume

of external assistance directed towards individual programmes, and the extent to which initial outputs/outcomes had been achieved (e.g. number of books published, teachers trained, classrooms built etc.). The assessment of coverage and expenditure also recognized adjustments to investment programme strategies and sometimes variations in donor supported programmes (e.g. in teacher training).

The second dimension was an assessment of policy progress (see *Table 3*). These ratings focused more closely on the extent to which various programmes and activities have contributed to the achievement of broader policy and strategy objectives. The policy dimensions included are quality improvements, greater equity in access, cost-efficiency gains, the extent to which cost sharing has developed and broader contributions to capacity building and sustainability. It should be emphasized that these assessments are only indicative. It is acknowledged that it takes time before activities show policy/strategy outcomes and in some cases (e.g. rationalization of services, greater cost sharing) these policy developments are a gradual, evolving process.

Table 3. Summary of activity coverage and policy progress

Programme	Activity coverage	Policy progress
1. Basic education: Quality improvement	3.9	2.0
2. Basic education: Equitable access	2.3	1.3
3. Basic education: Planning/Management	3.3	1.5
4. Youth and Sport	2.4	1.3
5. Technical and Vocational	4.5	2.3
6. Higher education	3.8	1.8
7. Upper-secondary education	2.6	1.1
8. Cross-sectoral development	1.0	1.0

Code: 1: very limited; 3: medium; 5: very extensive.

Source: MoEYS.

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For *basic education quality improvement* there has been extensive investment in textbook production and teacher development, through school-based and cluster approaches. There has also been more limited support for additional instructional materials, alongside significant investment in lower-secondary foreign language teaching. Refurbishment, but not rationalization, of professional and teacher training colleges (PTTCs) has been extensive. However, although difficult to quantify, it is acknowledged that the impact on student performance has been disappointing.

In policy terms, several key issues have yet to be addressed, despite preparation of a number of master plans (e.g. textbooks, teacher training, foreign languages, minority education). For example, increasing and regulating instructional hours in primary and secondary schools has hardly taken place. Strategies for addressing accreditation of foreign-language teachers, including private provision, are underdeveloped.

6. Disbursement performance for education, 1996-1999

Any consideration of future expenditure in education will be coloured by perceptions of recent financial performance. It is important to consider not only how budgets differ from year to year, but also how funds were supplied to meet those budgets. It would be useful to consider this performance against major activities of the Ministry (such as primary or basic education, lower or upper secondary) but these do not figure in the budget as such. The analysis here is based on figures supplied by the Department of Finance, MoEYS. In all cases the figures are nominal and refer to current expenditure.[9]

9. The figures come from Chapter 10 (Salary and wages), Chapter 11 (Operations), Chapter 30 (Social intervention) and Chapter 31 (Social intervention – International), across the Sections: General Education, Higher Education, Youth and Sport, and the Provincial sector. Figures for 1999 are as of the end of August, and the budget for 2000 is as agreed by the MoEF, but not yet ratified by the House of Assembly.

Budgeted and actual expenditures, 1996-2000

The nominal budget figures for the Ministry over the period show a static picture with a pronounced growth in the final two years of the period (see *Figure 1*).

- The budget for 2000 shows a growth rate of nearly 85 per cent over 1998.
- The pattern is very similar by section – there are few relative changes between the sections over the period.
- For most Chapters there has been steady growth in the budget for every section and year.
- For most lines there has also been steady growth in nominal terms in actual expenditure. However, Chapter 11 for the Provincial section has shown steady declines in actual expenditure, though these have all greatly exceeded budgeted amounts.

Actual as a percentage of budget

Actual expenditures for the Ministry have been slightly below budget by a little more than 5 per cent over most recent years. Most sections and their Chapters have also been below, but the variance is quite large (see *Table 2a*).

- Actual expenditure in the provinces has been slightly over budget in most years, though Chapter 11 actual expenditure has been greatly over budget, with salaries (Chapter 10) both over and under.
- The three central sections have mostly been well under budget in actual expenditure – this is particularly so for General Education for most years for most Chapters.

- The occasional heavy overrun (such as Chapter 31 for General Education for 1997) suggests some planning problems, as well as the underspending, particularly on salary lines. Provision may have been made for staff who were not recruited.

Budget out-turn by section

Looking at the percentage actual expenditure of the budget across these years by section does not reveal the causes of the underspending that is the most common characteristic. It may be a failure of supply, in that the MoEF did not have the funds to spend, or it may be a failure of capacity, in that the funds were available but the system did not allow the MoEYS to actually commit them. In any case the following observations can be made (see *Figure 4*):

- a poor but improving performance across most sectors;
- the Youth and Sport section, though the smallest, has been growing strongly and has already well overspent its budget for 1999;
- higher education has been consistently improving though it appears to be down this year.

Budget and actual expenditure within sectors

The percentage of both the budget and the actual expenditure between Chapters for each section across the period varies greatly (see *Table 3a*):

- From year to year the proportion of funds budgeted by individual sections for different Chapters is very inconsistent. For example, General Education budgeted the following for salaries (Chapter 10) for the five years: 7%, 17%, 20%, 9%, 9%;
- The actual expenditure also varies greatly and inconsistently with the budgets.

- The most consistent overspending appears in the Provincial Chapter 11 line. In previous years this has routinely been overspent by more than 200 per cent.

- The salaries budget is consistently about 73 per cent of the total recurrent budget and is often slightly overspent (see *Figure 5*). However, the Provincial salaries budget is mostly underspent. Thus although the salaries budget for the Provincial sector is usually set at around 93 per cent, actually about 5 per cent less is spent.

7. Conclusion

The budget is determined by MoEYS for the central Sectors in accordance with the work plans of functional departments, then amalgamated into Chapters (and their subsections) and Sectors. Provincial budgets are determined in conjunction with MoEF without reference to MoEYS. After agreement on the broad framework and passage by the House of Assembly, these are not translated back into departmental budgets. Requests for expenditure by departmental heads are not therefore related to the agreed budget, but to the national work plan on which the internal budget submission was made. The budget does not therefore function as a management tool for individual department heads. This, plus the consistent underfunding of the Ministry, leads to the virtual transfer of funds between Chapter and Sector.

III. PROCEDURES OF BUDGET PREPARATION IN CAMBODIA

1. General framework of procedures

Three principles of the national budget

The elected government, in 1993, spelt out its main objectives in the form of a National Programme to Rehabilitate and Develop Cambodia, which was adopted by the National Assembly. The economic reforms need to be viewed and evaluated within the framework of this programme, which began in 1994. Among its objectives, the government has focused efforts on macroeconomic stabilization, growth and reform. At the same time, a new budget system has been prepared by the government and has been approved by the National Assembly. Two laws, the Organic Budget Law and the Finance Law of 1994, provide the legal basis for major fiscal reforms. The laws have established three principles:

- the **unity of the budget,** i.e. one national budget for the country as a whole, including provincial ministries and departments as branches of their respective central ministries;
- the **universality of the budget,** i.e. the budget must cover all government revenues and expenditures;
- the **annual budget,** i.e. the budget must be prepared, approved and executed annually. The annual budget commences on 1 January and ends on 31 December.

The laws have also established the authority of the State Treasury over all government revenues collected by any government institution, and they contain a series of provisions to establish accepted and transparent procedures to avoid fraud, such as introducing:

- the principle that budget management should be separated from the financial control function, with prior control of expenditure by the financial controller;
- competitive bidding procedures;
- internationally recognized accounting and classification systems, which will facilitate management, monitoring of performance, and economic and financial analysis.

Structure of the budget nomenclature

Since 1994, the national budget has been classified into budget nomenclature that is divided as categories, chapters, articles, paragraphs and subparagraphs. The Law of Finance distributes the budget into categories by Ministry and comparable public organization in the government.

The permanent resources of the government consist of recurrent revenues and capital revenues that are combined into three categories:

- Category 1: Tax and duty revenues;
- Category 2: Non-tax revenues;
- Category 3: Capital revenues.

The permanent charges of the government consist of recurrent expenditures and capital expenditures that are distributed into five categories:

- Category 1: Means and services;
- Category 2: Loan interests;
- Category 3: Public interventions;
- Category 4: Unexpected expenditures;
- Category 5: Capital expenditures.

In each category, the budget is distributed into chapters by sub-decree that is signed by the Prime Minister.

In each chapter, the budget is further distributed into articles, paragraphs and subparagraphs by decision of the Ministry of Economy and Finance (MEF).

In brief, the allocation of the budget into nomenclature is based on the nature or purpose of the revenue and the expenditure.

2. General procedure of the budget preparation

During March of each year, MEF establishes a perspective of the financial situation for the following year. According to that situation, the government forms a financial policy and decides priority actions. Based on that information, MEF develops a first draft of the budget, and then sends a circular of the budget preparation to line ministries and local authorities of various levels. The circular is of a technical nature and explains the procedures of the budget preparation.

All ministries and provinces must complete their proposed budgets and send them to MEF not later than September of each year.

By **September,** MEF collects the prepared budgets of various ministries, and then has discussions with concerned ministries and makes any necessary adjustments.

By **November,** MEF develops a proposed budget, which is then forwarded to the Council of Ministers for consideration and approval, and submitted to the National Assembly not later than the first week of December. It is then submitted to the Senate for discussion and ratification before 25 December of the same year.

The general procedure of budget preparation in Cambodia consists of two parts: resources and charges of the government, and six steps as follows:

Estimation of the national revenue

The national revenues have to be estimated during the budget preparation. They comprise recurrent revenues and capital revenues. The recurrent revenues are combined into two categories: tax and duty revenues and non-tax revenues. Ministries in charged with their collection must also estimate them.

The predicted data of the national revenue have to be centralized to the Budget Department of MEF in September.

The estimated revenue is used by MEF to fix the budget ceiling.

Estimation of the national expenditure

Ministries and comparable public organizations must estimate their expenditures on all their activities at both central and provincial level.

The estimated expenditure is also centralized to the Budget Department of MEF in September.

In general, the preliminary estimation of the expenditure is much higher than the revenue. Therefore, MEF has to balance the budget, with macroeconomic stabilization, by negotiating with concerned ministries.

Negotiations with ministries

After the estimated budget has been centralized, it is reviewed and allocated into the earmarked estimates of the budget for each Ministry according to the predicted revenue and government policy. That is, the estimated expenditure should be balanced with the estimated revenue, and then follow government policy, for example expenditure on national defence and security sectors should be

reduced to the rate of 3 per cent of GDP in order to increase expenditure on the social sector to 5 per cent of GDP for the year 2000.

During the budget-negotiation meeting, the Budget Department plays the crucial role of co-ordinating each Ministry to accept the budget bundle. However, the budget bundle may be changed if an emergency should arise or in case of unexpected expenditures which are strongly required by ministries with actual financial plans.

Discussion and approval by the Council of Ministers

After the negotiations with ministries, a proposed national budget is prepared by MEF and submitted to a meeting of the Council of Ministers. Minister of each ministry would require their budget proposals ready when there are some disagreements in the previous negotiation or any confusion.

As the result, the proposed budget would be improved and submitted to the meeting of the National Assembly.

Adoption of the proposed budget into Law by the National Assembly

The proposed budget is then examined and voted by the National Assembly. The national budget that is adopted by the National Assembly is called the Law of Finance.

Allocation of the national budget into the budget nomenclature

MEF negotiates with each Ministry for the allocation of the national budget into the budget nomenclature. Then each Ministry distributes its budget into central and provincial levels. The Minister is empowered to order payments for the Ministry. However, he often

decentralizes his power to the provincial governor, who is called the 'delegated manager', empowered to order payments for the provincial level.

3. Existing framework of budget preparation for Education in 1999

Budget preparations for the Ministry of Education, Youth and Sports

In August, preparations begin for the national budget for the following year by MEF. At the same time, ministries and provinces prepare their budgets under the time-frame that is recorded in the Law of Finance. Under the Law of Finance, the national budget must be prepared by each Ministry, from all services of the Ministry to the central level, then negotiated with MEF.

In practice, this rule is time-consuming and delays the budget proposal. Therefore, the provincial education service prepares its budget and submits it directly to the Budget Department of MEF. However, provincial budgeting is authorized by MEF, MoEYS and the provincial planning service, Otherwise, account being taken of the development programme and the education policy of the government, and must cover all revenues and expenditures of its sector.

During the process of budget preparation, MoEYS should inform the provincial service of any changes that could affect the provincial budget. During the negotiations with MEF, the provincial and central budget would be discussed separately, but provincial and central officers would discuss any potential problems together. After the negotiations, the provincial budget proposal is copied and sent to MoEYS.

During the negotiation of the central budget, which is often organized after the provincial budget negotiation, MoEYS could

demand that the provincial budget be changed when it has clear arguments to support its decision. Moreover, when there has been new government policy, for example, 300 teachers recruited without former planning, which means without budgeting, the central level must prepare and request the budget, and then it must reallocate this budget to the provincial level that is affected by this recruitment.

National Budget in 1999

The National Budget in 1999 was approved follows:

A.	Internal Revenue:	1.245 billion riels.
	1. Recurrent revenue:	1.220 billion riels.
	2. Capital revenue:	25 billion riels.
B.	Total expenditure:	1.480 billion riels.
	1. Recurrent expenditure:	1.110 billion riels.
	2. Capital expenditure:	380 billion riels.

Therefore, the recurrent budget, that has a surplus of 120 billion riels, will serve for debt depreciation and capital expenditure.

However, the total budget is in deficit to the sum of 235 billion riels. The deficit will be financed by external funds.

In particular, the amount of the recurrent expenditure of 124.7 billion riels was allocated for Education, Youth and Sports under the Budget Law in 1999, which was equal to 1.02 per cent of the 1999 GDP. There are four sections in the education budget:

1. Section of Education (central level) is allocated 21.00 billion riels, including 1.85 billion riels for wages and salaries.

2. Section of Higher Education (central level) is assigned 8.37 billion riels, including 2.6 billion riels for wages and salaries.

3. Section of Youth and Sports (central level) is allocated 3.47 billion riels, including 0.455 billion riels for wages and salaries.

4. Section of Provincial and Municipal Services (provincial level) is assigned 91.89 billion riels, including 85.89 billion riels for wages and salaries.

It is noted that the capital expenditure is globally held by MEF and it will be invested into projects in response to particular requirements of ministries. Hence, ministries do not receive exactly their budget of capital expenditure.

The budget allocation shows that 93 per cent of the provincial budget is spent on wages and salaries.

However, textbook and examination costs, the second major expenditure after wages and salaries, are centralized and spent from the budget of the central level.

IV. PROCEDURES OF BUDGET IMPLEMENTATION

1. General procedure of budget implementation

Budget implementation starts when the National Assembly has adopted the national budget (Finance Law). It can proceed when there is disposable credit in the budget nomenclature. It also respects the monthly budget plan that is prepared by MEF according to the availability of the revenues.

There are different procedures of budget implementation according to the category and nature of expenditures. The general procedure consists of three stages as follows.

Expenditure commitment

In this stage, the implementing Ministry prepares a budget requirement in response to its actual work and financial plan. The budget requirement normally consists of three different papers that are combined together:

- the budget proposal that is prepared by its Finance Department indicates the amount of budget requirement and the purpose of expenditure;
- the detailed work and financial plan that is prepared by its operational institution and the Finance Department;
- the budget commitment form, which is a unit form of MEF, must be applied and used for recording the amount of budget requirement into the budget nomenclature referring to the purpose of the expenditure.

The budget requirement must be sent to MEF and is then reviewed by the Financial Controller, who will approve the budget commitment form and certify to maintain an amount of budget for payment to the expenditure.

Expenditure liquidation

The implementing Ministry must follow the Law and other regulations of Public Procurement that consist of two procedures, competitive bidding and non-competitive bidding.

- Any purchase of goods and services that costs less than 20 million riels necessitates obtaining at least three quotations. The lowest priced will be chosen. The supplier must complete the supply of goods and services before receiving payments.

- Any construction cost that is less than 40 million riels requires quotations from at least three constructors. The lowest priced will be chosen. The supplier must completely finish the construction before payment is issued.

- Any public procurement that will cost more than the limits given above must follow the procedure of competitive bidding (see *Appendix 2*). The supplier must completely implement the contract before receiving payment.

Mandate (payment order processing)

The implementing Ministry prepares a mandate and other supporting documents like the approved form of budget commitment, document of bidding, contract, bid security, and approved certificate of acceptance. These financial documents are forwarded to the Financial controller for review and approval. The approved mandate is sent to the Treasury for further review and, finally, for payment.

2. Existing procedures of budget implementation

Payment for salaries, allowances and scholarships

In this procedure, the line Ministry and MEF promote an official staff member of the line Ministry itself to be the Agent of Payment, who takes on the role of paying salaries, allowances and scholarships at the central level. Another Agent of Payment is also promoted for each provincial service. The Agent of Payment must open an account in the National Treasury for the central level and in the Provincial Treasury for the provincial level. The account is used for transitional deposit before withdrawal of money.

There are some different procedures regarding the payments between central and provincial levels. At the central level, a payroll must be prepared by each department of line ministries. It must be sent to the Public Works Secretariat for review and approval. After that, it is sent back to the line Ministry. The Finance Department of the line Ministry collects some or all payrolls together and prepares the mandate, budget commitment form and budget proposal, and then sends them together to the Financial Controller for review and approval.

Finally, the Agent of Payment sends the approved mandate and its supporting documents to the National Treasury for further review and payment.

The scholarship payment request, however, is prepared by the school and sent, through concerned departments, to the Finance Department of MoEYS, who prepares a mandate and its supporting documents without need of the approval of the Public Works Secretariat. The next steps follow same procedure as the salaries payment.

At the provincial level, the Agent of Payment prepares the mandate, budget commitment form, payroll and other supporting documents and submits them to the Chief of the Education Service in the province for review and approval. The Mandate and its supporting documents are submitted to the Financial Controller before the Provincial Governor for review and approval. Finally, the approved mandate and its supporting documents are sent to the Provincial Treasury for further review and payment.

Salaries and scholarships should be paid, at the end of the month, by cash through the Agent of Payment to official staff members and students. In practice, they are delayed until the first or second week of the following month; the mandate processing takes around three to four weeks on average. This problem produces additional difficulty, as the present salary is just about US$20 per month.

Payment for operational expenses

The payment for operational expenses must follow the general procedure of the budget implementation shown above.

Payment for capital expenditures

The payment for capital expenditures must follow the general procedure, but it includes more complicated stages than the payment for operational expenses, as follows.

- Expenditure commitment

In the stage of expenditure commitment, the line Ministry, MoEYS for example, prepares and submits a budget proposal and a Work and Financial Plan (WFP). In MEF, several people in the Department of Investment review the WFP. Their reviews focus on the efficiency of methods in the Work Plan, costs estimate or pricing. They also

review budget availability, overlapping the role of the Financial Controller. They indicate budget availability using the approval annual budget that is directly held by MEF. They indicate their comments in a Review Note before the budget proposal is finally approved by the MEF Minister. After the approval of the WFP by the MEF Minister, the WFP is ready for implementing the procedures of public procurement.

▩ Expenditure liquidation

The line Ministry organizes a committee called the Procurement Evaluation and Assessment Committee (PEAC), composed of members from both the line Ministry and MEF. In the line Ministry, there is an Office of Public Procurement, which is also known as the Procurement Unit (PU), that supports PEAC in implementing the public procurement. The PU prepares a document of bidding and advertises to the public. On a given day, PEAC organizes a meeting to open envelopes of bidding documents that are proposed by at least three suppliers. Any Financial Plan that has the lowest cost should be chosen for the implementation of that project. PEAC can draw up a contract with the supplier quoting the lowest cost on condition that the total cost of the project is less than 20 million riels (about US$5,000 dollar). If the total cost is more than 20 million riels, PEAC must prepare a report and a contract that are approved by the MoEYS Minister, then send them to the Department of Public Procurement (DPP). In the DPP, two high-level officers review and evaluate the bidding result. The two officers are the Department Director and the Chief of the Goods Procurement Office (in the case of supply of goods) or the Construction Procurement Office (in the case of supply of services in construction or repairs). After the evaluation, they report to the MEF Minister regarding the bidding result and the supplier who should be chosen. If the Minister approves the report,

he will sign the contracts that have been prepared and attached together.

Following this, the supplier and both Ministries, MEF and MoEYS, sign the contract; the project will be implemented with respect to the time-frame of the contract.

PEAC will conduct an inspection and prepare a Certificate of Acceptance upon receipt of the supplier's request and the actual result of the project implementation for making payment. The responsibility of PEAC is to ensure that the contract is followed and that the physical accomplishment of the project really exists as claimed. Each PEAC member and the supplier must sign the Certificate of Acceptance.

Just as for the WFP, the line Ministry must send the Certificate of Acceptance and its supporting documents to the Investment Department of MEF for review. The Investment Department routes the Certificate of Acceptance, together with its Review Note, to the various officers of MEF for review and approval, ending with approval by the MEF Minister.

- Payment order processing

The line Ministry simultaneously prepares a payment order and budget commitment form on the basis of the approved Certificate of Acceptance. The payment order and budget commitment form, together with supporting documents such as contract, bid security, and approved Certificate of Acceptance, are forwarded to the Financial Controller and other MEF officials for review and approval.

The approved payment order and its supporting documents are forwarded to the National Treasury for further review and, finally, for payment.

If the payment is made in foreign currency, the line Ministry forwards the approved payment order and its supporting documents to the External Finance Department (EFD) for further review and, finally, for payment. The EFD performs a treasury function as well as the National Treasury, but it holds only foreign currency accounts. Its accounts are in the National Bank of Cambodia.

Payment for advances

According to the general procedure, budget implementation should follow the three stages given above, but some expenses need to be paid in cash. Therefore, the Finance Law allows for two forms of advanced budget. These are advances for small expenses and advance for a certain project.

- Advance payment for small expenses

The line Ministry prepares two co-ministry decisions, which are unit forms, between the line Ministry itself and MEF. The first decision, that is the decision on petty cash, indicates the total amount of advance payment for small expenses. A table is attached that records the advanced amount in detail by chapter, article, paragraph and subparagraph. The second decision nominates an officer of the line Ministry to be responsible for the advanced payment. After the two decisions have been approved, the line Ministry must prepare an advance proposal and send it together with the detailed table of advanced payment, to the Financial Controller for approval.

The line Ministry forwards the advance proposal, the detailed table of advanced payment and the two decisions to the National Treasury and then withdraws the money.

The 'small expense' category is limited to a maximum of 500,000 riels for one item of expenditure.

For each item of expenditure, the line Ministry must keep the payment bill or voucher for making payment clearance.

After the advance money is spent, the responsible officer must prepare the mandate and commitment form, which is signed by the Minister of the line Ministry. The mandate, the commitment form, payment bills and other supporting documents are forwarded to the Financial Controller for review and then for approval by the MEF Minister.

The mandate and its supporting documents are finally forwarded to the National Treasury for further review and withdrawal of the money.

The sequence of the advance payment for small expenses continues as for the above procedure, but the total amount of each item of expenditure cannot be more than 30 per cent of the annual budget.

- Advance payment for a certain project

There are certain projects that need money on hand to be paid for immediately, for example examination and seminar expenses; the line Ministry has to prepare an advanced proposal with a financial plan. The proposal and its financial plan are forwarded to the Financial Controller for review. The Financial Controller forwards the proposal with its financial plan and his note of review to the Budget Department for further review and the establishment of an advance decision that will be signed by the MEF Minister.

The advance decision, that indicates only the total amount of advance budget and the objective of the expenditure, is forwarded to the National Treasury for withdrawal of money.

The line Ministry must nominate an officer to withdraw money from the National Treasury. The officer is responsible for collecting all payment bills and for settlement at the end of the project.

When the project is finished, the line Ministry prepares the mandate, commitment form, payment bills and other supporting documents which show that the specified amount of money was really spent, or any remainder paid back to the National Treasury. The mandate and its supporting documents are forwarded to the Financial Controller for review and approval by the MEF Minister. Finally, they are sent to the National Treasury for further review and payment clearance.

V. RECOMMENDATION

1. The Department of Planning, which holds statistical data and basic information on various levels of the education sector, should be involved in the budget preparation stage.

2. The budget preparation should be based on the actual needs of schools and the number of students and teachers. This would be better than merely being concerned with the previous year of actual expenditure, when it is not certain that the national resources were well allocated, subject to government policy.

3. The salaries of civil servants should be increased to cover their basic needs, and they should be advanced to the fourth week of the month, then the payment clearance would be done the following month.

4. The budget of MoEYS should be allocated into various subsections as follows:

   - the budget of the Education Section should be distributed into Primary, Secondary, Non-formal education and Central administration subsections;
   - the budget of the Higher Education Section should be distributed into Higher education, Technical education and Vocational training and Teacher training subsections;
   - the budget of the Youth and Sports Section should be distributed into Youth and Sports subsections.

   The allocation of the budget into subsections would facilitate management by objective.

5. The adjustment of the budget, in the same article of the budget nomenclature, should be decided by the line Ministry.

6. The capital expenditure *(Chapter 50)* should be allocated into the budget share of each ministry by the Law of Finance.

7. At the provincial level, the organizer should be the Director of the provincial education service.

8. The Law of Public Procurement should be applied for all levels of expenditure in order to ensure that the national resources have been used correctly, with regard to place, time and with transparency.

9. MEF should strengthen the independent role of Financial Controllers and share responsibility with them in making decision on public expenditure.

10. The financial reports should be published monthly or quarterly and sent to all concerned institutions and staffs in order to get feedback for improving the economic efficiency of budget preparation and implementation.

APPENDIX 1. GENERAL FINANCIAL REGULATION

Extract from the Financial Law

1. General Regulation

The Financial Law guides the planning and application every year of the state resources and charges in the framework of the country's oriented goals in social and economic development, balancing fundamental currency.

The Financial Law includes:

- Annual budget law and revised budget law;
- Budget execution law.

The Financial Law takes effect from 1 January to 31 December of each calendar year. The general national budget consists of national resources and expenditures.

(a) National resources include:

- Taxes and duties:
  - incomes taxes, profit taxes, taxes derived from capital incomes;
  - estate taxes, taxes on assets and services;
  - taxes derived from external trade, other fiscal taxes.

- Non-fiscal incomes:
  - taxes on revenues derived from state property;
  - other non-fiscal incomes.

- Capital incomes.
  - domestic incomes in capital;

- external aid;
- resources in the form of debt.

The revenue as a whole is used for coping with overall expenditure in respect of related provisions as stipulated by the law.

(b) National charges:

The national charges are generally categorized into two broad types of expenditures: recurrent and capital.

- Recurrent expenditure: this has four basic categories as follows:
  - Category 1: Means and services;
  - Category 2: Interest on short, medium and long-term loans;
  - Category 3: Public intervention;
  - Category 4: Miscellaneous and contingency.
- Capital expenditure: this is a broad-based category including expenditure on:
  - investment project;
  - state interventions;
  - participatory means;
  - back-payment for debts.

The Financial Law allows all ministries or public institutions of similar status to incur two types of expenditure, namely:

- budget for recurrent expenditures *(Chapters 10-11-13-31-32)*;
- budget for capital expenditures *(Chapters 50-51)*.

2. Budget preparation

In the month of March of every year the Economic and Finance Minister is expected to launch the outlook of the financial situation for the following financial year.

- The Minister of MEF will plan the budget and send a circular to local authorities at various levels. The circular is often of a technical nature and normally explains the procedures of project development.

- Prior to this, Heads of ministries and provincial authorities are expected to prepare statements of estimated income and expenditure and send them to the Ministry of Economy and Finance before September.

- By September of the preceding financial year, the Ministry of Economy and Finance (MEF) receives papers submitted by various ministries, discusses submissions with concerned ministries and makes adjustment as necessary.

- By November the MEF will develop financial bills, forward these to the Royal Government for consideration and approval and then submit the bills to the National Assembly not later than the first week of December for discussion and ratification before the 25th day of the month (December).

- A financial bill submitted to the National Assembly for approval should be accompanied by:

  - an analytical report on the new budget plan and a concise explanation of the balance between the financial status and economic situation;
  - an explanatory note for each chapter, especially the scope of recurrent expenditure;
  - an annex attached to each chapter of the proposed capital expenditure;
  - other necessary documents attached for information to and auditing by the National Assembly.

3. Budget implementation

Financial operations and the Treasury's special accounts are executed by organizers and public accountants.

Expenditures incurred under the visa of the Financial Controller who is the officer of MEF.

Expenditures incurred on the construction or the purchase of equipment have to follow the procedures of the public procurement law.

(a) Movement of the budget

1. The transfer of budget from one Ministry to another can be done through a decree issued by the Royal Government, but the proceedings should reverse categories of expenditures and the allocation of budget by each chapter.

2. The conversion of budget from one chapter to another can be operational unless one Ministry issues the decree authorizing internal intervention in one category of expenditure.

3. The conversion of budget from one transaction to another, from one provision to another and from paragraph to paragraph, that is within the same chapter, is enacted on case the Ministry of Economy and Finance issues a proclamation authorizing to do so.

4. The Financial Law can be amended within the financial year on case the National Assembly gives ratification.

(b) Procedures of expenditures

The responsibility for budget execution is held by both the organizer and the public accountant. The budget implementation consists of three steps:

- engagement (commitment of expenditure);
- liquidation;
- mandate.

4. Various definitions

- Public accountant: executes auditing operations of finance for all ministries.

- National budget: the means by which annual incomes and expenditures of the state are planned.

- General principles of budget:
  - *Principle of the annual budget:* The budget is applicable for one year.
  - *Principle of unit of the budget:* The budget is contained in only one document of nomenclature.
  - *Principle of universality of the budget:* The budget is used for the balance of all incomes and expenditures.
  - *Principle of specialty of the budget:* The budget must be approved by the National Assembly by categories, chapters, paragraphs and subparagraphs.

- Various actors of financial management:
  - *Organizer (manager of payment order):* The head of Ministry or Institution who is empowered to order payments at the central level.
  - *Delegated organizer:* The Provincial or Municipal Governor who is delegated to order payments in his province or municipality.
  - *Accountant:* National treasury or provincial treasury.
  - *Financial controller:* Finance officer of MEF who authorizes the visa of incomes or expenditures.

- Expenditure processing: They are executed in three steps:
  - *Engagement:* That is the commitment for expenditure authorized by the Financial Controller of MEF.
  - *Liquidation:* That is the monitoring of the expenditure by bidding, contracting, direct purchase of Public Procurement.
  - *Mandate:* That is the payment order in the form of a mandate.

- National Accounting:
  - *Accounting for incomes:* This is the role of the National Treasury or the Provincial Treasury, who are in charge of collecting all national incomes and entering them into national income accounts.
  - *Accounting for expenditures:* This is also the role of the National Treasury or Provincial Treasury; who are in charge of monitoring the budget; payment of expenditures; and entering expenditures into the national expense accounts.

APPENDIX 2. MANAGEMENT OF PUBLIC PROCUREMENT

I. Methodology

Procurement of goods, services and civil-works prepared by a public institution should follow two procedures:

- Organization of fair competitive bidding;
- Organization of other methods entailing non-competitive bidding.

A. Competitive bidding

- Bidders are invited to offer a genuine and competitive bid for the supply of wanted goods or services;
- this method offers advantages to the state, especially in the selection of the highest bidders;
- open and competitive bidding can be conducted through organizing:
  - international competitive bidding (ICB), which is organized for fee contracts of large sums, with the participation of many foreign potential bidders.
  - domestic competitive bidding (DCB), which is organized for fee contracts of smaller sums, with the participation of local bidders who can supply local products under agreement.

B. Other procurement methods

There are:

- International shopping (IS), which requires three quotation lists from at least two countries. This method is chosen when the ICB is not applicable, while the amount of money is not high but still attracts a wide range of international competition to deal with urgent work.

- Domestic canvassing (DC) is a method to sound out the bid price and requires at least three quotations from local suppliers. It is applied in contracts for the supply of goods from local shops (materials, spare parts and local equipment).

- Direct purchase (DP) or Direct contracting (DCo) is a method of entering into a contract with suppliers through direct negotiations in such circumstances as follows:

  - purchase of additional materials for further rehabilitation or repair;
  - purchase of equipment that can be produced by a sole supplier;
  - purchase of goods or services which are badly needed in an emergency;
  - work to be done when the country suffers from a natural disaster;
  - when there is a new purchase order and the previous bid price needs to be maintained;
  - when there has been failure in organizing two consecutive bidding occasions because of the absence of bidders;
  - purchase of goods from another state institution.

II. Procedures

A. Preparation

Before procuring supplies for any unit, it is necessary to meet the following conditions:

- There is real demand for such supplies, services or work, indicating sources of supplies, financing, the concerned competent authorities as one partner of the contract, proceedings of procurement agreed upon by both sides and letter of specification issued by MEF.

B. Procedures applied in competitive bidding (ICB and DCB)

In major tasks, procedures are chosen with the following in mind:

- a procedure which can ensure that the competitive bidding is held in good order and proceeds with an atmosphere of impartiality and equal treatment;
- there is a need to define pre-qualification of the bidder for major construction projects.

C. Non-competitive bidding procedure

- International shopping (IS);
- Domestic canvassing (DC);
- Direct purchase (DP);
- Direct contracting (DCo).

Even where a competitive bidding process is not required, careful consideration must be given to criteria of selecting supplies.

D. Procurement of consultative services

- Consultants are selected in order to make use of their expertise, implement the project and provide technical consulting services to consolidating institutions;
- consultative services can be provided by a group of consultants or an individual consultant;
- a consultant can be recruited through ICB, which is applicable to consultative companies.

Procedures for consultant recruitment are:

- the preparation of a consultants list (long list);
- shortlisting of consultants;

- evaluation of consultants' application forms;
- screening and ranking of consultants by qualification;
- selection of those for interview and eventual signing of the contract with the chosen candidate.

Procedure for selecting individuals is simple and faster:

- consultants are not required to submit application forms;
- consultants' ranking can be done according to the knowledge of the evaluator.

III. Organization structure

1. *The Department of Public Procurement* (DPP) has been set up to play an intermediary role, taking responsibility for and monitoring the procurement process. The DPP is under the jurisdiction of MEF. It should have a number of operational subunits based on concrete requirements, and an inter-ministerial committee to supervise procurements, ratify application forms and to group suppliers. The DPP should play the role of supervisor of public procurement initiated by various concerned ministries, provincial, municipal and state autonomous institutions. It has technical responsibility for funds. It provides consultative services and interpretation when required. It advises on implementation, measure to be taken and regulations to be followed by concerned institutions. It has the authority to convene designated government officials to make clarifications on relevant problems.

2. *Power and authority of MEF:* It is entitled to establish the DPP; define roles and functions of various subunits under the DPP; develop procedures and operational policies; and designate officials and staff members to be employed by DPP.

3. *Responsibility for procurement at various levels:* At the ministerial level, there should be one Under-Secretary of State responsible for all affairs related to procurement; at the level of state-run or autonomous institutions, the second senior official appointed by the chief of the concerned institution will take responsibility for this matter; at the provincial or municipal level, the provincial governor takes charge of procurement.

4. *Procurement Unit (PU):* Every Ministry, state institution, province and municipality should establish a unit in charge of procurement.

5. *Procurement Evaluation and Assessment Committee:* Each Ministry, state institution, province and municipality should have one Procurement Evaluation and Assessment Committee responsible for determining pre-qualifications, evaluating and awarding contracts to successful bidders.

6. *Power and authority of Council of Ministers:* All matters related to procurement worth more than 1,300 million riels should be forwarded, through MEF, to the Council of Ministries for examination and final approval.

APPENDIX 3. BUDGET NOMENCLATURE OF MINISTRY OF EDUCATION, YOUTH AND SPORTS

Chapter	Article	Paragraph	Sub-paragraph	Category 1: Means and Services
10				BL 10: Salaries and allowances
	01			Remuneration of public authorities
		01		Cabinet of Royal Palace
		02		Allowances of Vice-Speaker and M.P
		03		Allowances of Co-Chairmen and Vice-Chairmen of the Royal Government of Cambodia
		04		Allowances of Vice-Ministers
		05		Allowances of Diplomatic Corps
		06		Allowances of Provincial Governors and Vice-Governors
		07		Allowances of Groups of advisers
			01	Groups of Advisers
			02	Envoys
			03	Assistants
	02			Salaries and allowances of full-status civil servants
		01		Gross annual salaries, Number category 'A', 'B', 'C', others
			01	Cabinet
			02	Departments
			03	Departments
		02		Family allowances
			01	Children below 15 years
			02	Children in upper or lower secondary school

Chapter	Article	Paragraph	Sub-paragraph	**Category 1: Means and Services**
			03	Department allowances
		03		Other allowances
			01	Function premium
			02	Overtime allowances
			03	Pedagogical premium
			04	Regional allowances
			05	Health compensatory allowances
			06	Complementary allowances for engaging in fighting
			07	Responsibility allowances
	03			Salaries and allowances of contract al personnel
		01		Basic salaries. Number of working days average salaries
		02		Other allowances
11				Expenses for administrative operation, materials and minor repairs
	01			Expenses for administrative operation and materials
		01		Real estate for administrative management
			01	Rental Administration Office
			02	Maintenance
			03	Water
			04	Electricity
		02		Movable objects and materials
		03		Communication expenses, fax and telecommunications
		04		Paper and supplies
		05		Books and documents

Chapter	Article	Paragraph	Sub-paragraph	**Category 1: Means and Services**
		06		Conferences and meetings
		07		Materials for vehicles
			01	Repair and maintenance
			02	Motor fuel
			03	Rental expenses
		08		Reception expenses
			01	Foreign guests
			02	National guests
		09		Ceremonial expenses
			01	Traditional and national ceremonies
			02	King's birthday
			03	Reforestation day
			04	Other ceremonies
		10		Uniform expenses
		11		Security expenses
		12		Improvement expenses
			01	Experience and study
			02	**Labouratory materials**
			03	Seminars or meetings
			04	Experts' contracts
		13		Information and Public advertising
		14		Extra expenses
			01	Examinations and contests
			02	**Edition textbooks**
			03	Purchase of pedagogical materials

Chapter	Article	Paragraph	Sub-paragraph	**Category 1: Means and Services**
			04	Prizes
			05	Sports contests and sports materials
		99		Miscellaneous
	02			Indemnity expenses
		01		Domestic indemnity
			01	Transportation expenses
			02	Mission expenses
			03	Lodging expenses
		02		Foreign indemnity
			01	Transportation expenses
			02	Mission expenses
			03	Lodging expenses
			04	Other indemnities

Chapter	Article	Paragraph	Sub-paragraph	**Category 2:Interest on short, medium and long-term loans**
20				Chapter 20: Interest on short, medium and long-term loans
	01			Interest on interior loans
		01		
			01	.....
			02	.....
	02			Interest on external loans
		01		
			01	.....
			02	.....

Chapter	Article	Paragraph	Sub-paragraph	**Category 3: Public intervention**
30				Intervention in the economic domain
	01			
		01		.....
		02		.....
	02			Indirect intervention in the economic domain
		01		.....
		02		.....
31				Intervention in the social and cultural domain
	01			Direct intervention in the social culture domain
		01		Direct social expenditures
			01	Subvention for maternity

Chapter	Article	Paragraph	Sub-paragraph	**Category 3: Public intervention**
			02	Subvention for illness
			03	Subvention for dangerous work
			04	Subvention for death
			05	Subvention for invalidity and handicap
			06	Social hospitality aid
			07	Medicine for social assistance
			08	Aid for victims of natural disasters
			09	Subvention for orphans
			10	Subvention for retirement
			11	Subvention for resignation
			99	Other direct social expenditures
		02		Expenditures for scholarship
			01	Scholarship in research
			02	Scholarship in tertiary education
			03	Scholarship in other levels of education
			04	Scholarship in foreign training
			05	Other scholarships
		03		Rewards
			01	Reward
			02	Medal
		04		Colony of children's holidays
	02			Indirect intervention in the social and cultural domain
		01		Subvention of community
		02		Subvention of orphan centre

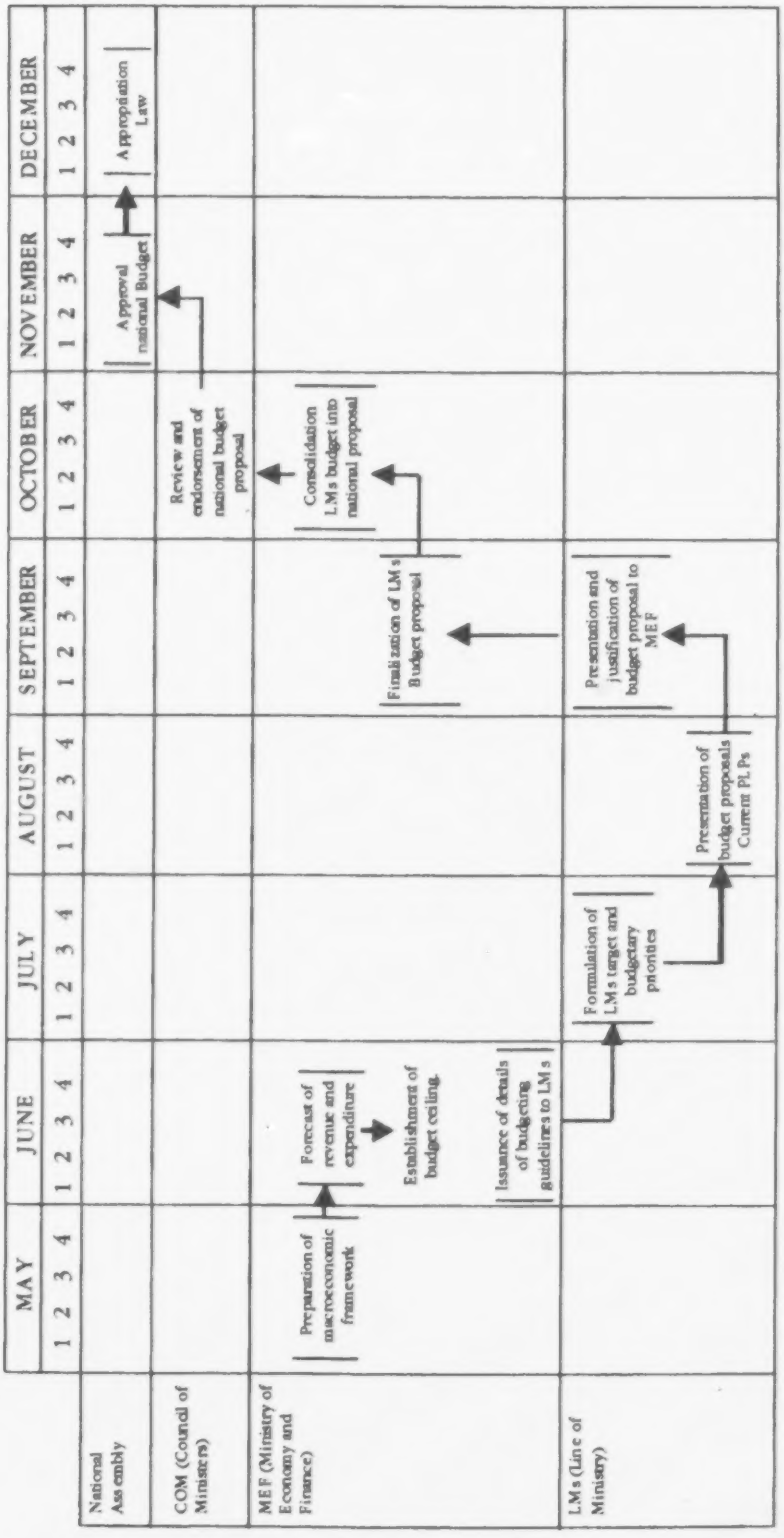
Chapter	Article	Paragraph	Sub-paragraph	**Category 3: Public intervention**
		03		Subvention of Red Cross
		04		Subvention of sports association
		05		.....
32				Chapter 32: Intervention in the international domain
	01			United Nations organization
	02			International Bank of Rehabilitation and Development
	03			Asian Development Bank
	04			UNESCO
	05			International Federation of Sport
	99			Other international organizations

Chapter	Article	Paragraph	Sub-paragraph	**Category 4: Miscellaneous and contingency**
40				Chapter 40: Miscellaneous expenditures
	01			Provisional credit
	02			Reimbursement and restitution
41				Chapter 41: Contingency expenditures

Chapter	Article	Paragraph	Sub-paragraph	**Category 5: Capital expenditure**
				Investment through using domestic financing
50	01			Construction and equipment
		01		Presentation of project
			01	Education
			02	Purchase of land or building
			03	Maintenance service
			04	Equipment
			05	Furniture
			06	Miscellaneous
		02		Comparison in domestic currency of foreign financing
51				Investment through using foreign financing
	01			Presentation of programme
		01		Presentation of project
			01	Education
			02	Buying land or building
			03	Maintenance service
			04	Equipment
			05	Furniture
			06	Miscellaneous
		02		.....
52				Financial co-operation
	01			Capital sponsorship to enterprise
		01		.....
	02			Lending and allowances to enterprise and units

Chapter	Article	Paragraph	Sub-paragraph	**Category 5: Capital expenditure**
		01		.....
53				Debt liquidation
	01			Debt liquidation in country
		01		Lending system in the country by Bank
			01	.....
		02		Other lending in country
	02			Liquidation lending outside country
		01		International organizations
			01	.....
		02		Government and other organizations
			01	.....

APPENDIX 4. TIME-FRAME OF BUDGET PREPARATION



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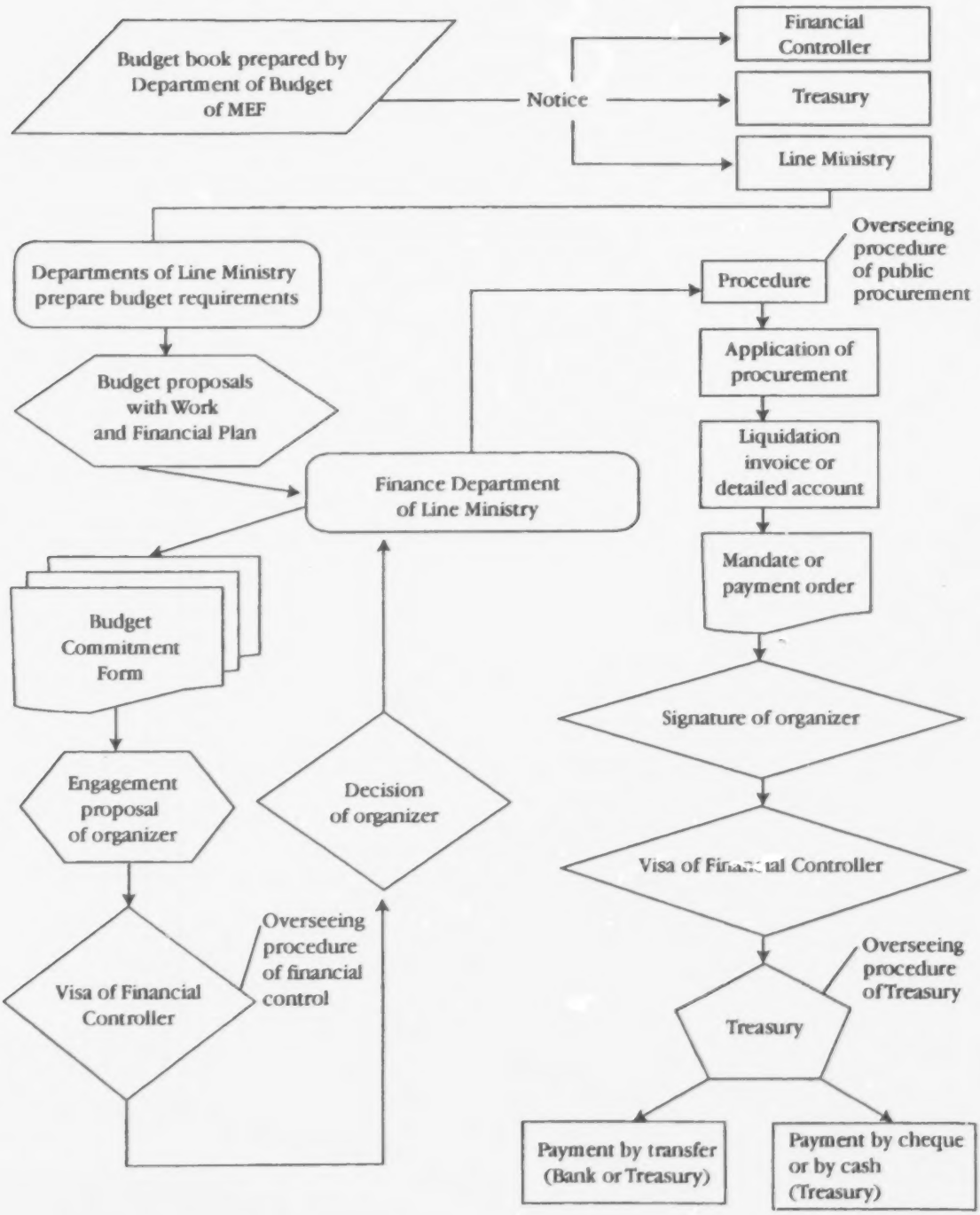
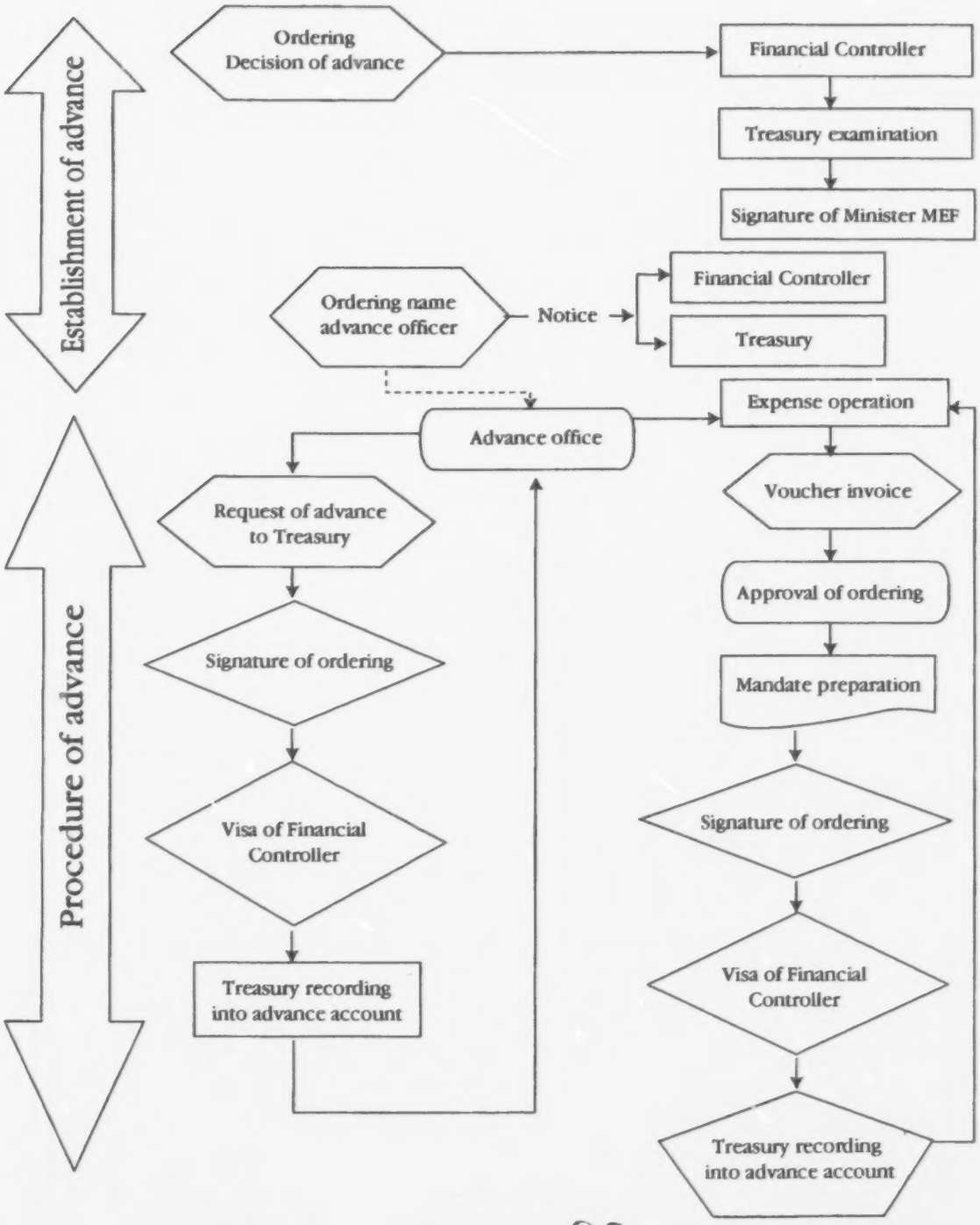
APPENDIX 5. EXPENDITURE PROCEDURES (BUDGET MANAGEMENT IN 1996)


Budget book prepared by Department of Budget of MEF
Notice
Financial Controller
Treasury
Line Ministry
Departments of Line Ministry prepare budget requirements
Budget proposals with Work and Financial Plan
Finance Department of Line Ministry
Budget Commitment Form
Engagement proposal of organizer
Visa of Financial Controller
Overseeing procedure of financial control
Decision of organizer
Procedure
Overseeing procedure of public procurement
Application of procurement
Liquidation invoice or detailed account
Mandate or payment order
Signature of organizer
Visa of Financial Controller
Treasury
Overseeing procedure of Treasury
Payment by transfer (Bank or Treasury)
Payment by cheque or by cash (Treasury)

APPENDIX 6. ADVANCE PROCEDURES FOR SMALL EXPENSES (BUDGET MANAGEMENT IN 1996)



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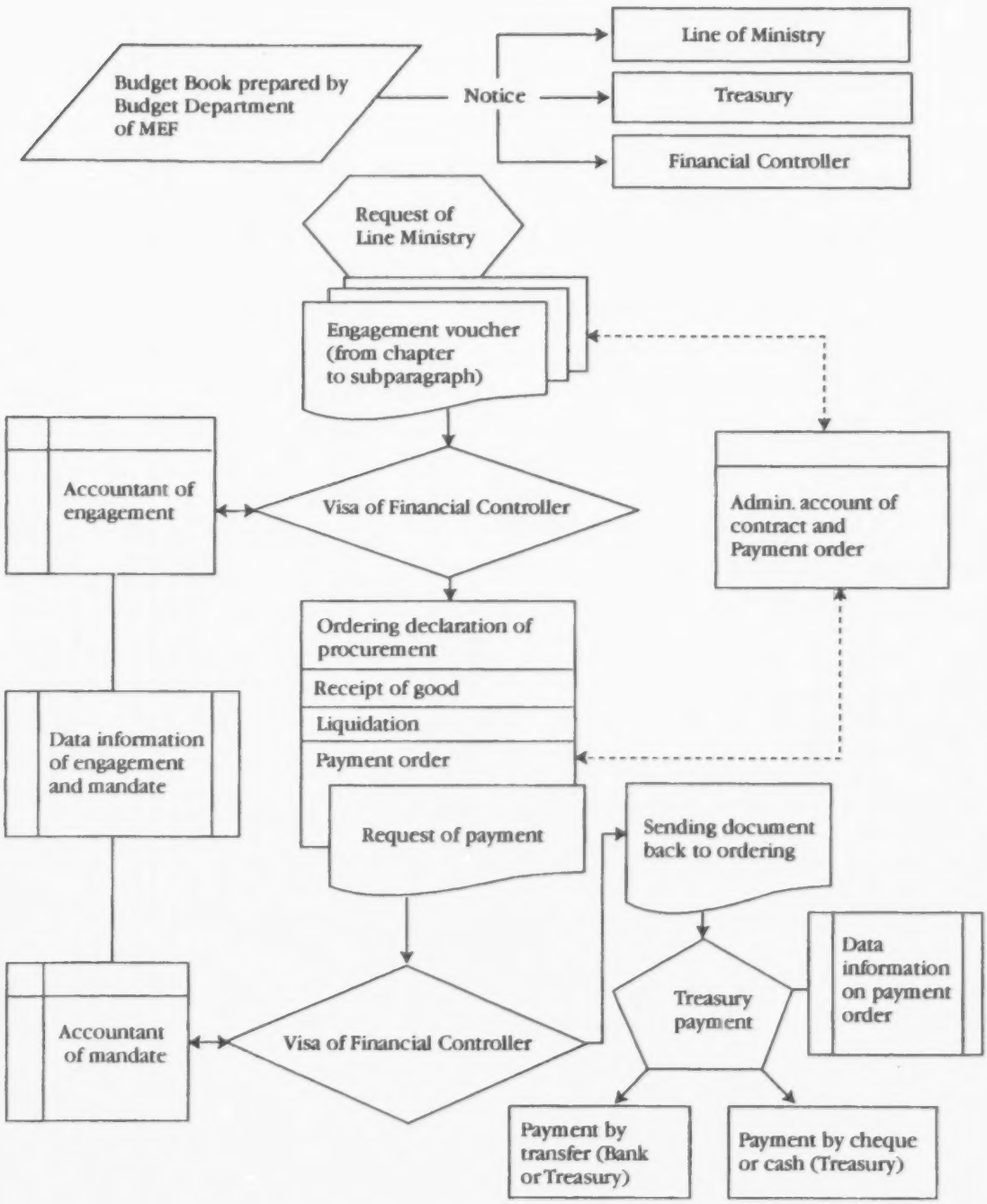
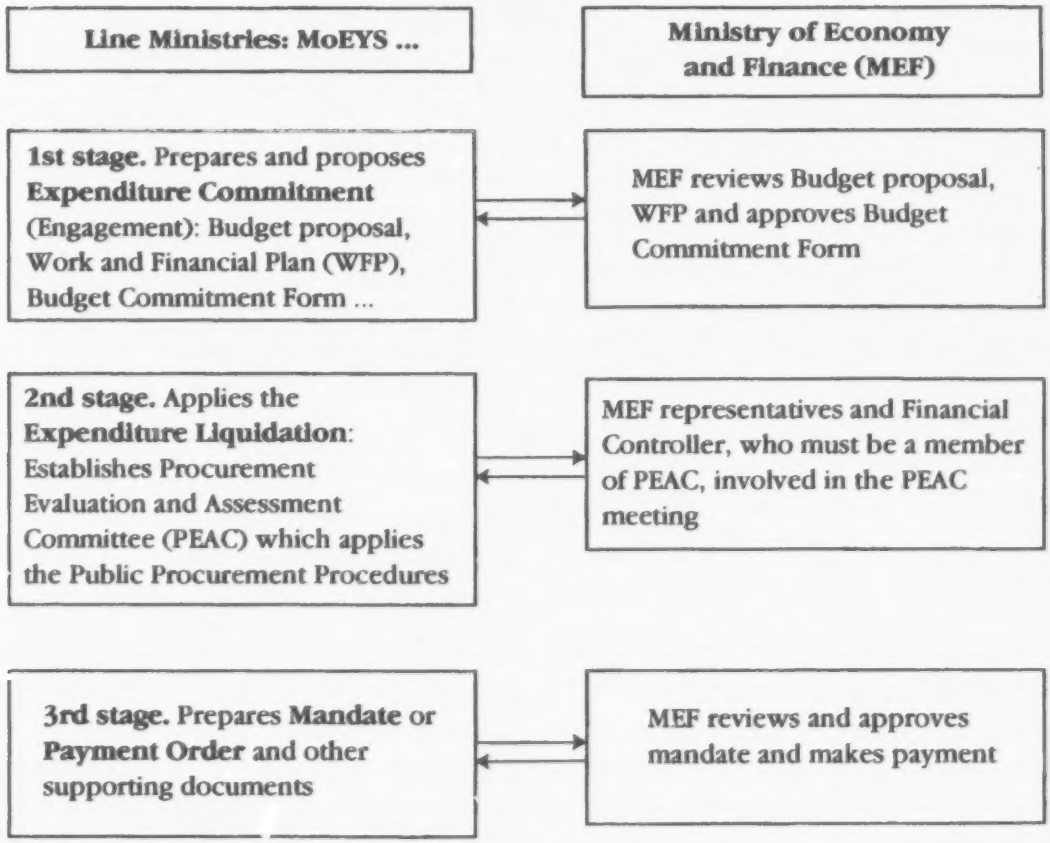
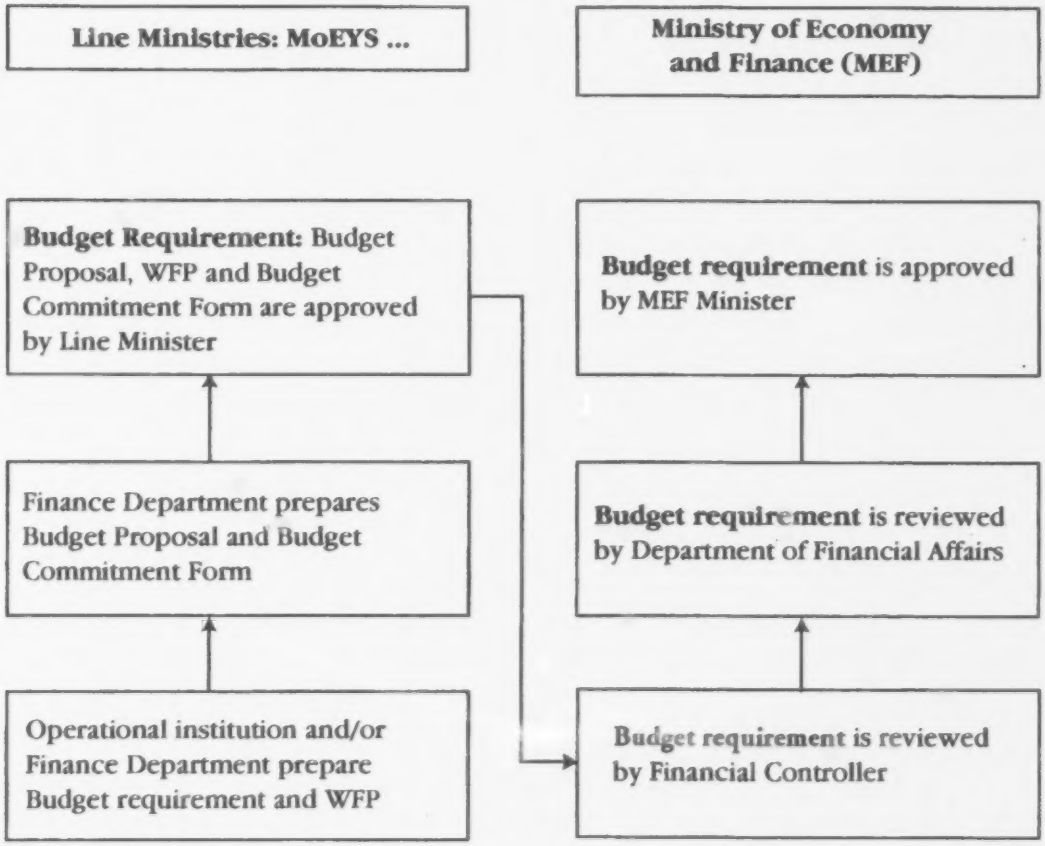
APPENDIX 7. PROCEDURES OF FINANCIAL CONTROL (BUDGET MANAGEMENT IN 1996)



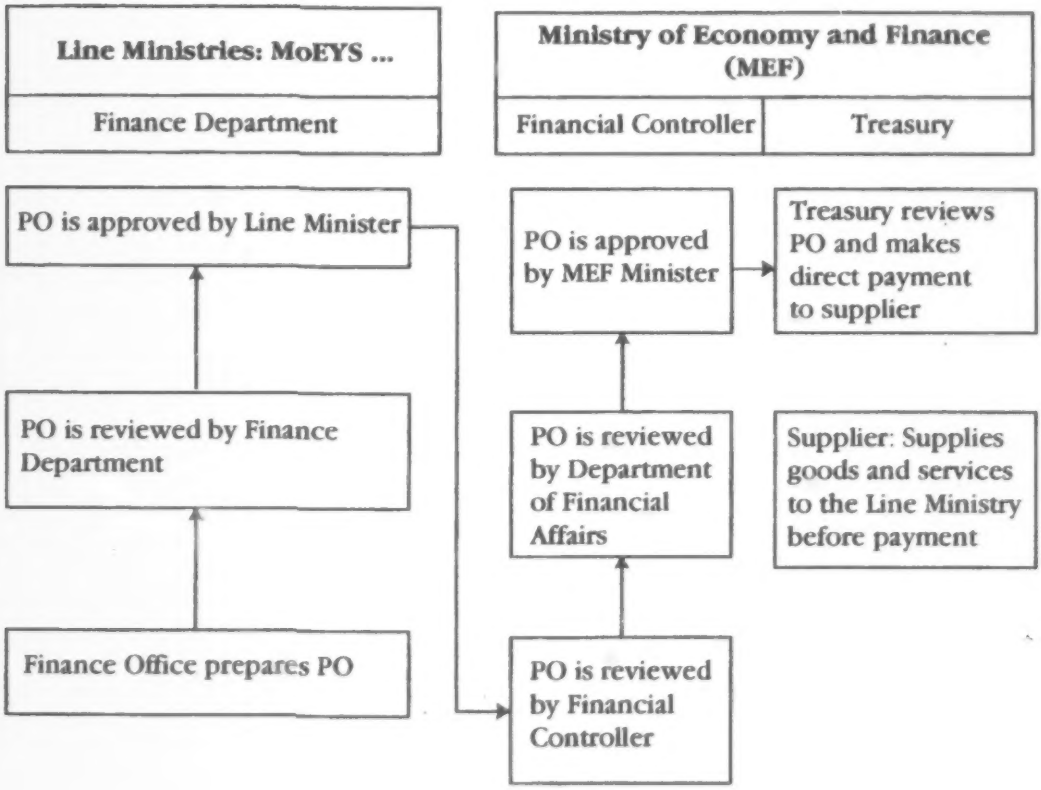
APPENDIX 8. GENERAL PROCEDURE OF BUDGET IMPLEMENTATION


Line Ministries: MoEYS ...
Ministry of Economy and Finance (MEF)
1st stage. Prepares and proposes Expenditure Commitment (Engagement): Budget proposal, Work and Financial Plan (WFP), Budget Commitment Form ...
MEF reviews Budget proposal, WFP and approves Budget Commitment Form
2nd stage. Applies the Expenditure Liquidation: Establishes Procurement Evaluation and Assessment Committee (PEAC) which applies the Public Procurement Procedures
MEF representatives and Financial Controller, who must be a member of PEAC, involved in the PEAC meeting
3rd stage. Prepares Mandate or Payment Order and other supporting documents
MEF reviews and approves mandate and makes payment

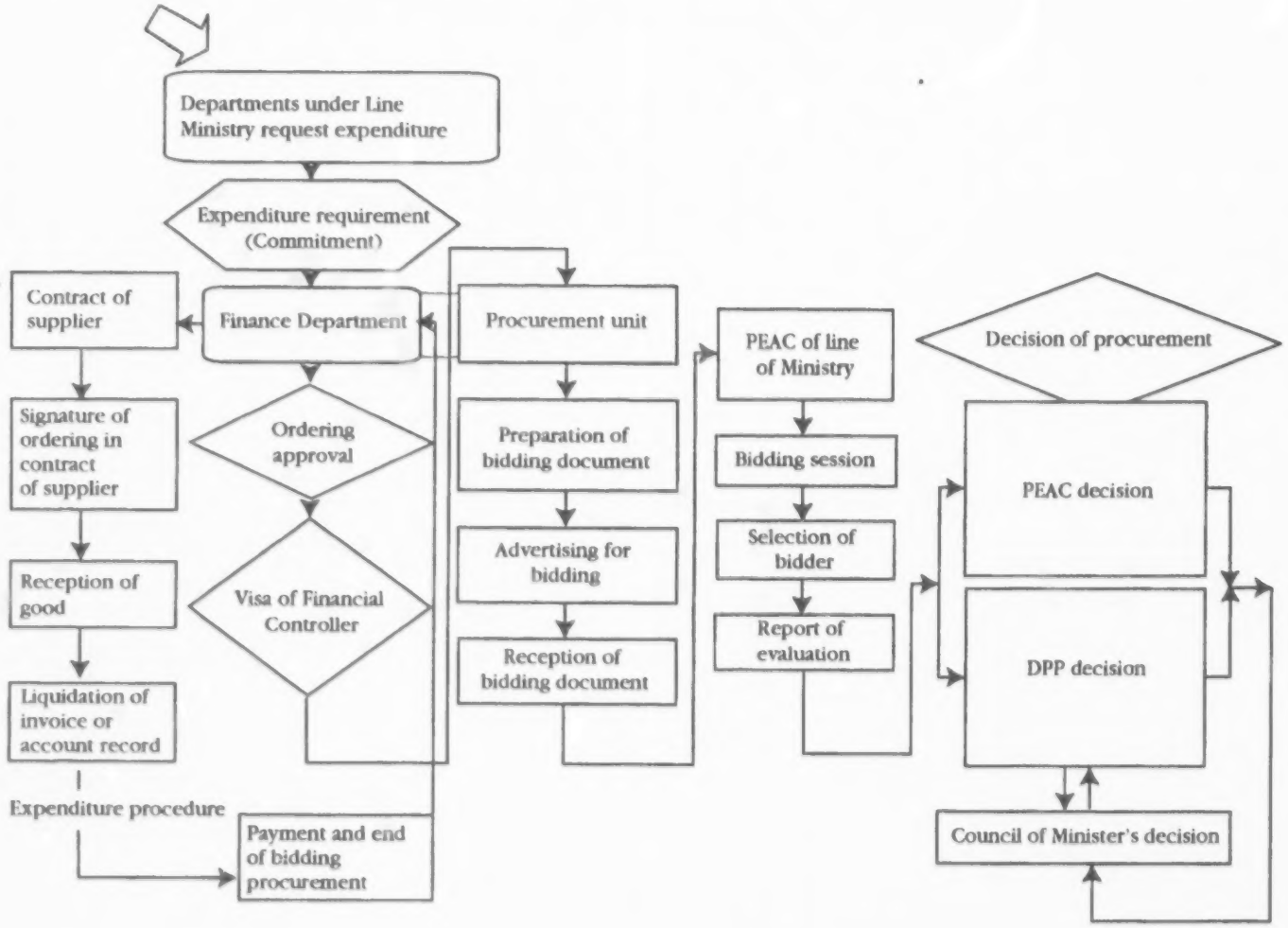
APPENDIX 9. GENERAL PROCEDURE OF EXPENDITURE COMMITMENT


Line Ministries: MoEYS ...
Ministry of Economy and Finance (MEF)
Budget Requirement: Budget Proposal, WFP and Budget Commitment Form are approved by Line Minister
Budget requirement is approved by MEF Minister
Finance Department prepares Budget Proposal and Budget Commitment Form
Budget requirement is reviewed by Department of Financial Affairs
Operational institution and/or Finance Department prepare Budget requirement and WFP
Budget requirement is reviewed by Financial Controller

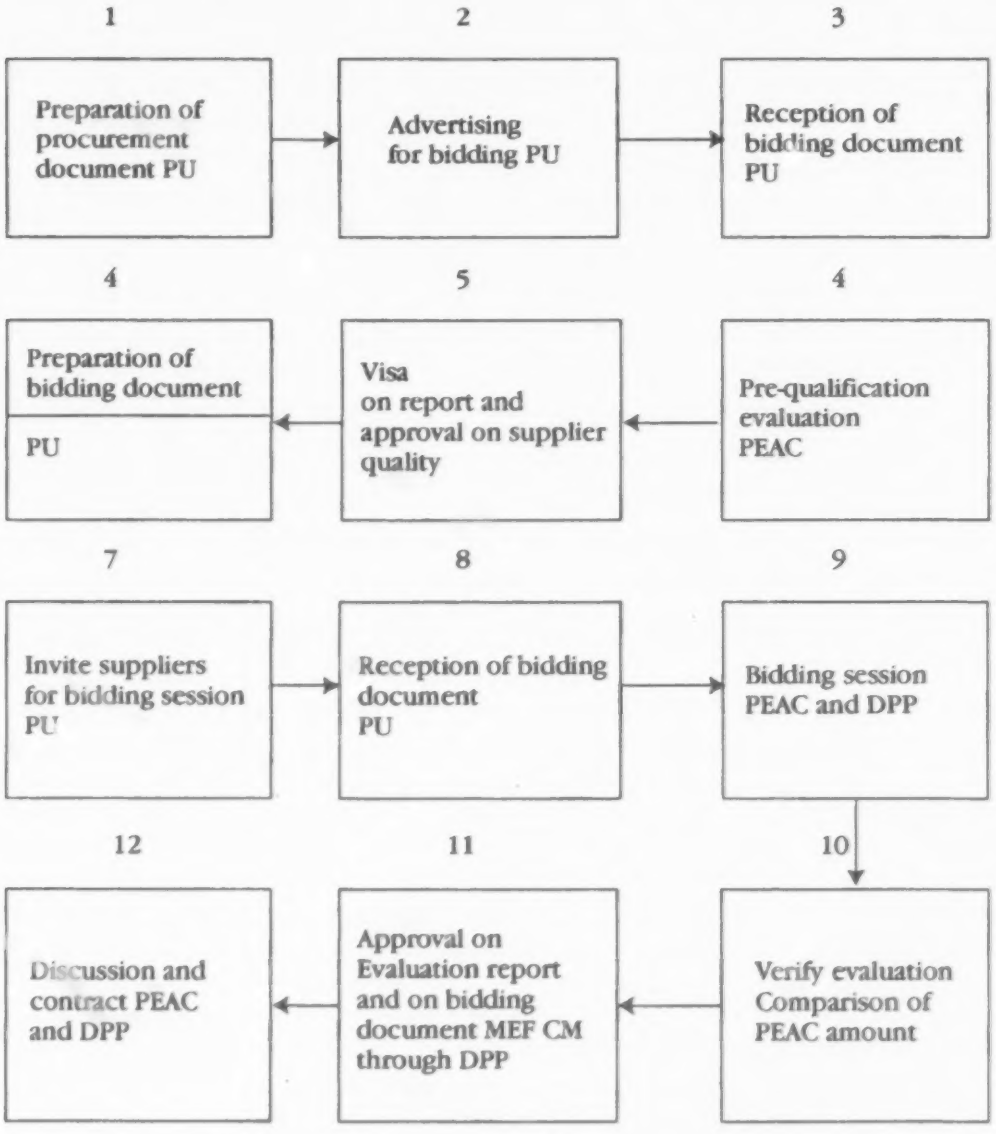
APPENDIX 10. MANDATE OR PAYMENT ORDER (PO) PROCESSING


Line Ministries: MoEYS ...
Finance Department
Ministry of Economy and Finance (MEF)
Financial Controller
Treasury
PO is approved by Line Minister
PO is reviewed by Finance Department
Finance Office prepares PO
PO is approved by MEF Minister
PO is reviewed by Department of Financial Affairs
PO is reviewed by Financial Controller
Treasury reviews PO and makes direct payment to supplier
Supplier: Supplies goods and services to the Line Ministry before payment

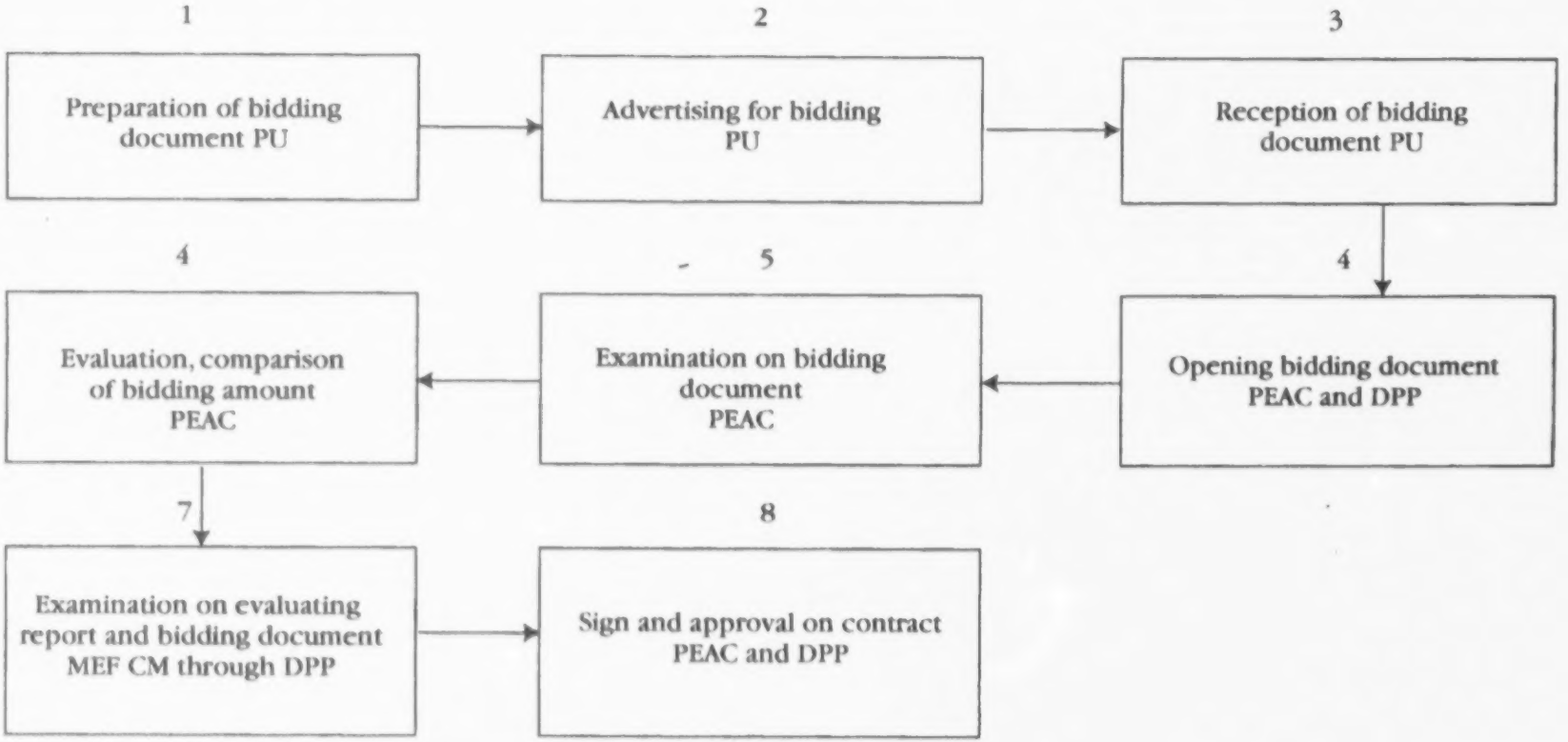
APPENDIX 11A. GENERAL PROCEDURES OF PUBLIC PROCUREMENT



APPENDIX 11B. PROCEDURES OF PUBLIC PROCUREMENT ON CIVIL WORKS



APPENDIX 11C. PROCEDURES OF PUBLIC PROCUREMENT ON GOODS



Note: PEAC Procurement Evaluation and Assessment Committee
MEP Ministry of Economy and Finance
CM Council of Ministers
DPP Department of Public Procurement

APPENDIX 11D. PUBLIC PROCUREMENT METHODS

Decision	Method	Supply	Amount (million riels)	Condition
CM through DPP	**CM**	General	More than 1,300	Relating to policy, social, moral or environmental issues
MEF through DPP	**ICB**	– good service – civil work – consultant	More than 100 More than 200 More than 100	1. Large contract 2. Contract from foreign country 3. Overseas contract coming for bidding
Line Ministry	**DCB**	– good service – civil work	From 20 to 100 From 50 to 200	1. Local good 2. Local contractor, minimum amount of bid 3. Difficulty of transportation
Province/city	**IS**	– good service – civil work	Less than 100 Less than 200	1. Minimum amount 2. Minimum quantity 3. Urgent need, not much time for ICB
Through	**DP-DCo**	– good service – civil work	Less than 20 Less than 50	(See document)
PU	**DC**	– small good	Less than 20	Contract for supply of materials, spare parts, small engine, local equipment

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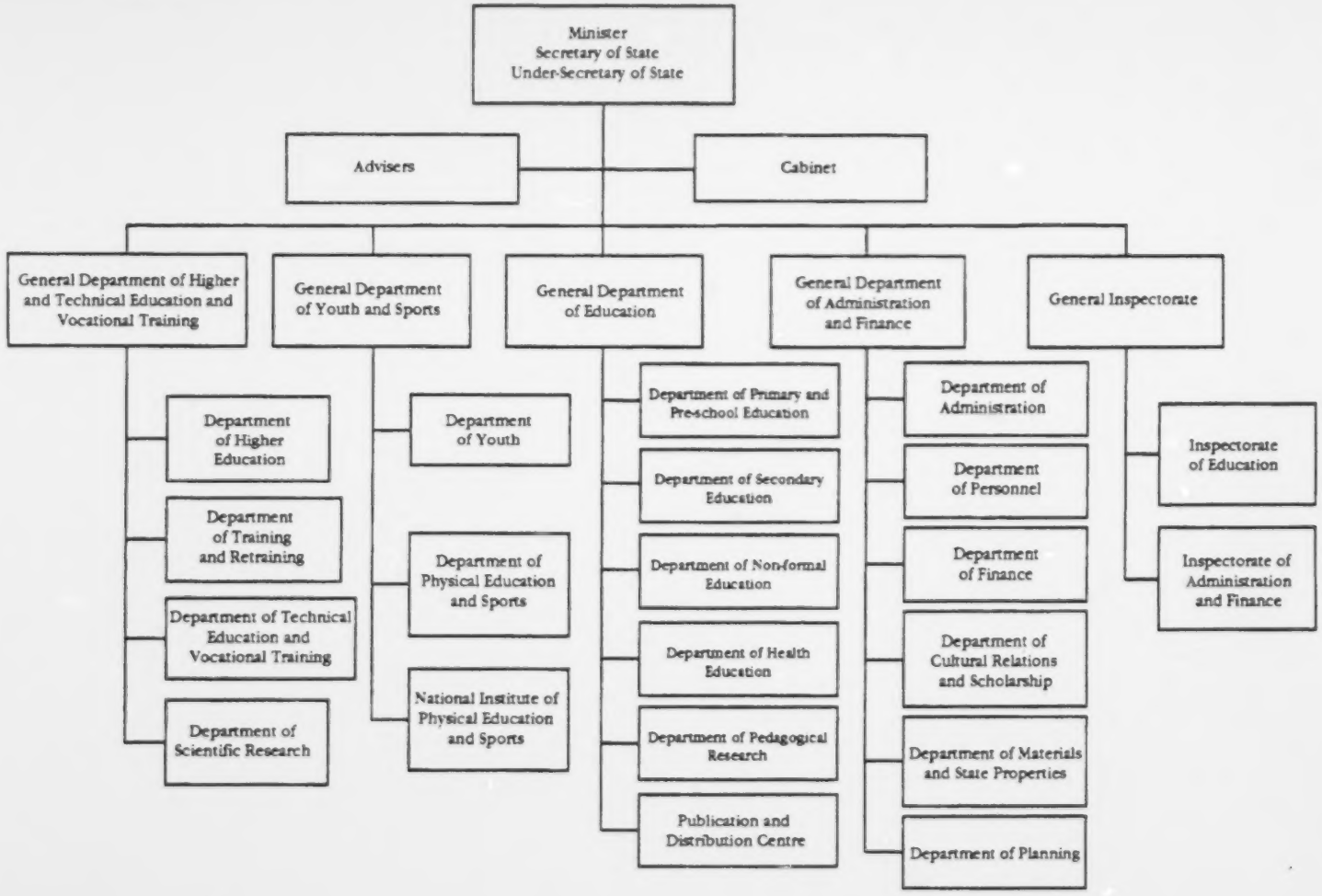
APPENDIX 12. ORGANIZATION CHART OF THE MINISTRY OF EDUCATION, YOUTH AND SPORTS


Minister
Secretary of State
Under-Secretary of State
Advisers
Cabinet
General Department of Higher and Technical Education and Vocational Training
General Department of Youth and Sports
General Department of Education
General Department of Administration and Finance
General Inspectorate
Department of Higher Education
Department of Training and Retraining
Department of Technical Education and Vocational Training
Department of Scientific Research
Department of Youth
Department of Physical Education and Sports
National Institute of Physical Education and Sports
Department of Primary and Pre-school Education
Department of Secondary Education
Department of Non-formal Education
Department of Health Education
Department of Pedagogical Research
Publication and Distribution Centre
Department of Administration
Department of Personnel
Department of Finance
Department of Cultural Relations and Scholarship
Department of Materials and State Properties
Department of Planning
Inspectorate of Education
Inspectorate of Administration and Finance

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APPENDIX 13. EDUCATION SYSTEM IN CAMBODIA

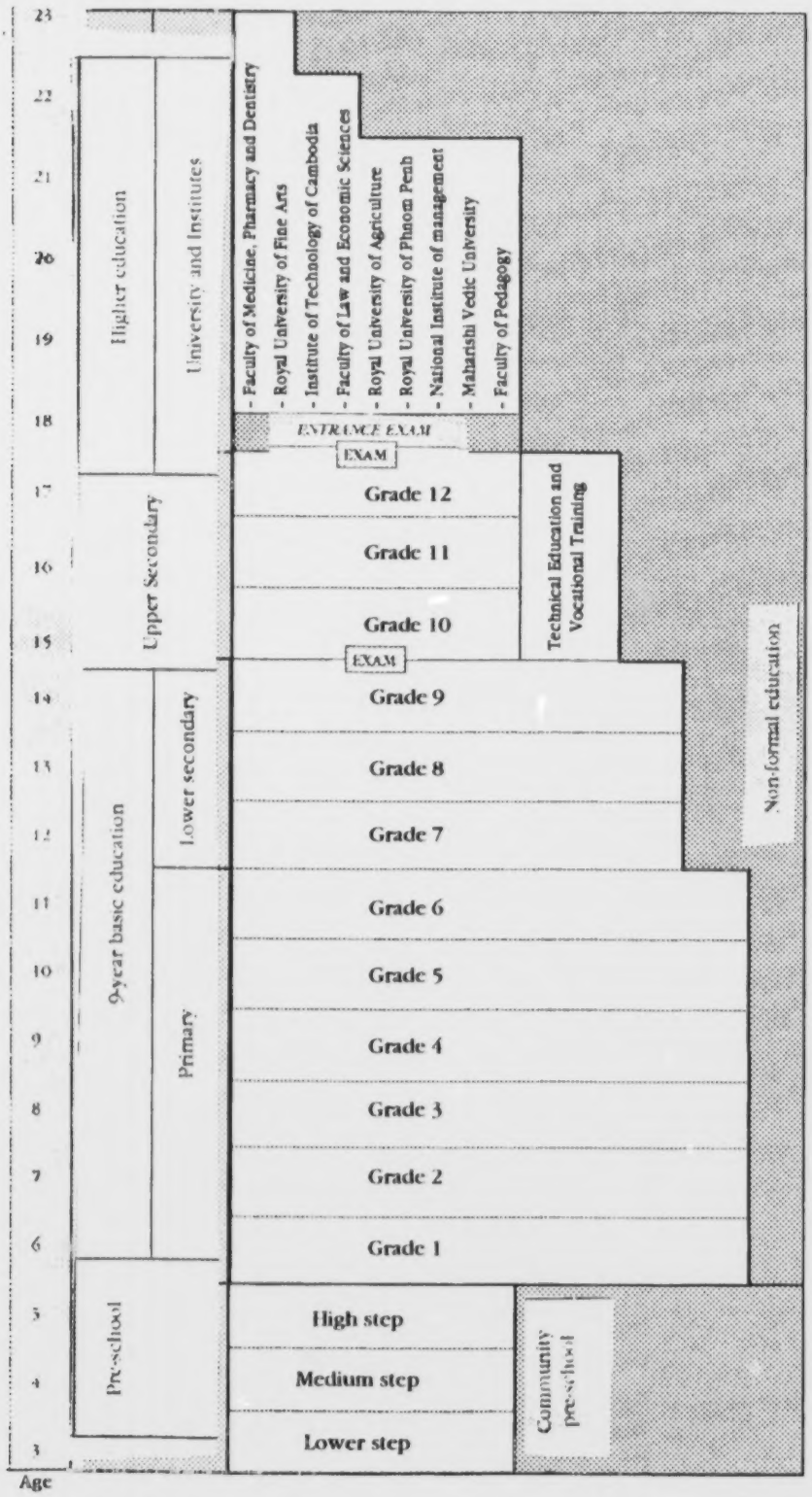

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Table 1a. Budget and actual expenditure for education, 1996-2000

Nominal riels (000,000s)	*1996*		*1997*		*1998*		*1999*		*2000*
General Education Sector	**16,705**	**11,295**	**17,760**	**9,312**	**17,680**	**9,912**	**21,258**	**12,806**	**25,320**
10 Salaries and allowances	1,150	1,210	3,080	1,621	3,580	1,849	2,016	1,120	2,300
11 Operations	15,315	9,331	14,380	4,605	13,000	7,866	19,012	11,599	22,500
31 Social intervention	205	135	300	776	1,100	197	160	22	385
32 Social intervention (int.)	35	19	0	2,310	0	0	70	65	135
Higher Education Sector	**2,295**	**1,623**	**4,930**	**4,362**	**5,015**	**4,986**	**10,399**	**4,785**	**11,280**
10 Salaries and allowances	1,090	969	1,440	1,363	1,685	1,858	2,919	1,863	3,070
11 Operations	845	464	2,950	2,412	2,915	2,726	6,270	2,572	7,200
31 Social intervention	320	169	540	236	415	402	1,200	350	1,000
32 Social intervention (int.)	40	21	0	351	0	0	10	0	10
Youth and Sport Sector	**1,640**	**681**	**2,710**	**1,817**	**3,035**	**2,411**	**3,670**	**5,779**	**7,280**
10 Salaries and allowances	360	229	340	358	510	420	455	269	600
11 Operations	930	324	1,770	1,002	1,700	1,228	2,430	4,587	5,700
31 Social intervention	295	102	600	375	800	763	725	898	900
32 Social intervention (int.)	55	26	0	82	25	0	60	25	80
Provincial	**64,825**	**66,954**	**65,250**	**70,755**	**68,172**	**69,766**	**124,446**	**67,501**	**139,290**
10 Salaries and allowances	60,245	56,346	60,250	61,424	63,983	61,356	112,772	64,768	120,190
11 Operations	3,480	9,743	3,500	8,180	2,864	7,616	9,806	1,834	5,000
13 PAP									10,000
31 Social intervention	1,100	865	1,500	1,051	1,325	794	1,868	899	4,100
32 Social intervention (int.)	0	0	0	100	-	0	0	0	0
Recurrent expenditure	*85,465*	*80,553*	*90,650*	*86,246*	*93,902*	*87,075*	*159,773*	*90,871*	*183,170*

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Table 1a. (continued)

Nominal riels (000,000s)	*1996*		*1997*		*1998*		*1999*		*2000*
General Education Sector	**20%**	**14%**	**20%**	**11%**	**19%**	**11%**	**13%**	**14%**	**14%**
10 Salaries and allowances	7%	11%	17%	17%	20%	19%	9%	9%	9%
11 Operations	92%	88%	81%	49%	74%	79%	89%	91%	89%
31 Social intervention	1%	1%	2%	8%	6%	2%	1%	0%	2%
32 Social intervention (int.)	0%	0%	0%	25%	0%	0%	0%	1%	1%
Higher Education Sector	**3%**	**2%**	**5%**	**5%**	**5%**	**6%**	**7%**	**5%**	**6%**
10 Salaries and allowances	47%	60%	29%	31%	34%	37%	28%	39%	27%
11 Operations	37%	29%	60%	55%	58%	55%	60%	54%	64%
31 Social intervention	14%	10%	11%	5%	8%	8%	12%	7%	9%
32 Social intervention (int.)	2%	1%	0%	8%	0%	0%	0%	0%	0%
Youth and Sport Sector	**2%**	**1%**	**3%**	**2%**	**3%**	**3%**	**2%**	**6%**	**4%**
10 Salaries and allowances	22%	34%	13%	20%	17%	17%	12%	5%	8%
11 Operations	57%	48%	65%	55%	56%	51%	66%	79%	78%
31 Social intervention	18%	15%	22%	21%	26%	32%	20%	16%	12%
32 Social intervention (int.)	3%	4%	0%	5%	1%	0%	2%	0%	1%
Provincial	**76%**	**83%**	**72%**	**82%**	**73%**	**80%**	**78%**	**74%**	**76%**
10 Salaries and allowances	93%	84%	92%	87%	94%	88%	91%	96%	86%
11 Operations	5%	15%	5%	12%	4%	11%	8%	3%	4%
13 PAP									7%
31 Social intervention	2%	1%	2%	1%	2%	1%	2%	1%	3%
32 Social intervention (int.)	0%	0%	0%	0%	0%	0%	0%	0%	0%
Recurrent expenditure	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*

Table 2a. Actual as a percentage of budget by Sector and Chapter

Nominal riels (000 000s)	*1996*	*1997*	*1998*	*1999**
General Education Sector	**68%**	**52%**	**56%**	**90%**
10 Salaries and allowances	105%	53%	52%	83%
11 Operations	65%	32%	61%	92%
31 Social intervention	66%	259%	18%	21%
32 Social intervention (int.)	54%	0%	0%	139%
Higher Education Sector	**71%**	**88%**	**99%**	**69%**
10 Salaries and allowances	89%	95%	110%	96%
11 Operations	55%	82%	94%	62%
31 Social intervention	53%	44%	97%	44%
32 Social intervention (int.)	53%	0%	0%	0%
Youth and Sport Sector	**42%**	**67%**	**79%**	**236%**
10 Salaries and allowances	64%	105%	82%	89%
11 Operations	35%	57%	72%	283%
31 Social intervention	35%	63%	95%	186%
32 Social intervention (int.)	47%	0%	0%	63%
Provincial	**103%**	**108%**	**102%**	**81%**
10 Salaries and allowances	94%	102%	96%	86%
11 Operations	280%	234%	266%	28%
31 Social intervention	79%	70%	60%	72%
32 Social intervention (int.)	0%	0%	0%	0%
Recurrent expenditure	*94%*	*95%*	*93%*	*85%*

* As a proportion of 8/12ths of the budget.

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Table 3a. Proportion of section budgets by Chapter – budgeted and actual

Nominal riels (000,000s)	*1996*		*1997*		*1998*		*1999*		*2000*
General Education Sector	**16,705**	**11,295**	**17,760**	**9,312**	**17,680**	**9,912**	**21,258**	**12,806**	**25,320**
10 Salaries and allowances	7%	11%	17%	17%	20%	19%	9%	9%	9%
11 Operations	92%	88%	81%	49%	74%	79%	89%	91%	89%
31 Social intervention	1%	1%	2%	8%	6%	2%	1%	0%	2%
32 Social intervention (int.)	0%	0%	0%	25%	0%	0%	0%	1%	1%
Higher Education Sector	**2,295**	**1,623**	**4,930**	**4,362**	**5,015**	**4,986**	**10,399**	**4,785**	**11,280**
10 Salaries and allowances	47%	60%	29%	31%	34%	37%	28%	39%	27%
11 Operations	37%	29%	60%	55%	58%	55%	60%	54%	64%
31 Social intervention	14%	10%	11%	5%	8%	8%	12%	7%	9%
32 Social intervention (int.)	2%	1%	0%	8%	0%	0%	0%	0%	0%
Youth and Sport Sector	**1,640**	**681**	**2,710**	**1,817**	**3,035**	**2,411**	**3,670**	**5,779**	**7,280**
10 Salaries and allowances	22%	34%	13%	20%	17%	17%	12%	5%	8%
11 Operations	57%	48%	65%	55%	56%	51%	66%	79%	78%
31 Social intervention	18%	15%	22%	21%	26%	32%	20%	16%	12%
32 Social intervention (int.)	3%	4%	0%	5%	1%	0%	2%	0%	1%
Provincial	**64,825**	**66,954**	**65,250**	**70,755**	**68,172**	**69,766**	**124,446**	**67,501**	**139,290**
10 Salaries and allowances	93%	84%	92%	87%	94%	88%	91%	96%	86%
11 Operations	5%	15%	5%	12%	4%	11%	8%	3%	4%
31 Social intervention	2%	1%	2%	1%	2%	1%	2%	1%	3%
32 Social intervention (int.)	0%	0%	0%	0%	0%	0%	0%	0%	0%
Recurrent expenditure	*85,465*	*80,553*	*90,650*	*86,246*	*93,902*	*87,075*	*159,773*	*90,871*	*183,170*

103 B
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Table 4a. Education budget and total Cambodian budget, 1994-2003

Percentages	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Recurrent education	8%	11%	11%	11%	10%	13%	14%	21%	22%	25%
Development education	8%	9%	17%	6%	10%	3%	7%	6%	4%	4%
Total education	8%	11%	13%	9%	10%	10%	11%	15%	14%	15%
Nominal (millions réels)										
Recurrent education	51,056	79,090	85,410	90,650	93,877	124,707	172,000	293,000	350,000	460,000
Total budget	673,800	689,600	812,900	809,700	910,350	941,850	1,255,000	1,400,000	1,590,000	1,830,000
Development education	35,248	47,180	92,095	30,675	53,665	18,408	54,820	60,663	52,277	55,920
Total budget	335,300	511,100	529,900	500,600	534,650	553,150	745,000	998,000	1,192,500	1,503,900
Total education	76,304	126,270	177,505	121,325	147,542	143,115	227,020	353,663	402,277	515,920
Total budget	1,009,100	1,200,700	1,342,800	1,310,300	1,445,000	1,495,000	2,000,000	2,398,000	2,782,500	3,333,900

Sources: PER 1999, Budget Circular 2000, Annex 2 PIP 1999.

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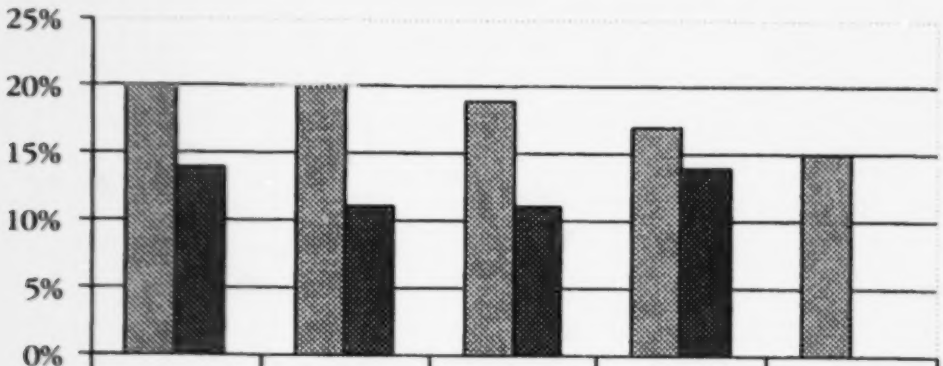
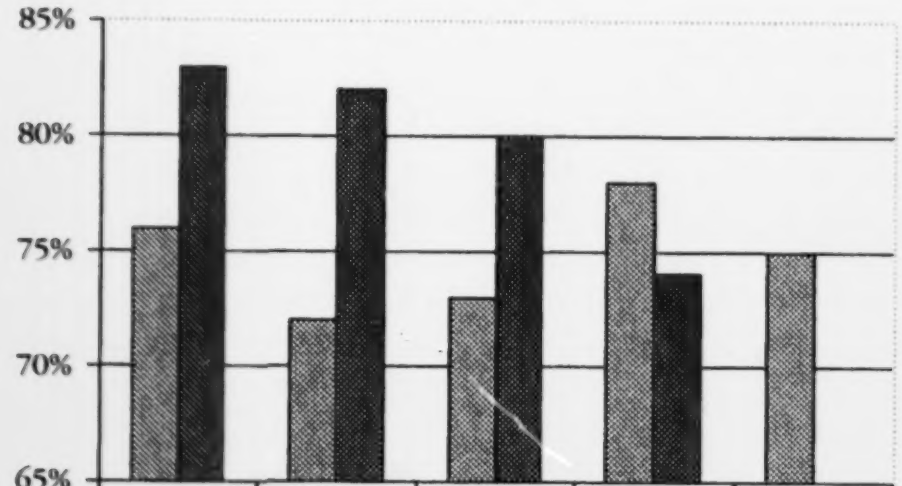
Figure 1. General education – budget v. actual expenditure



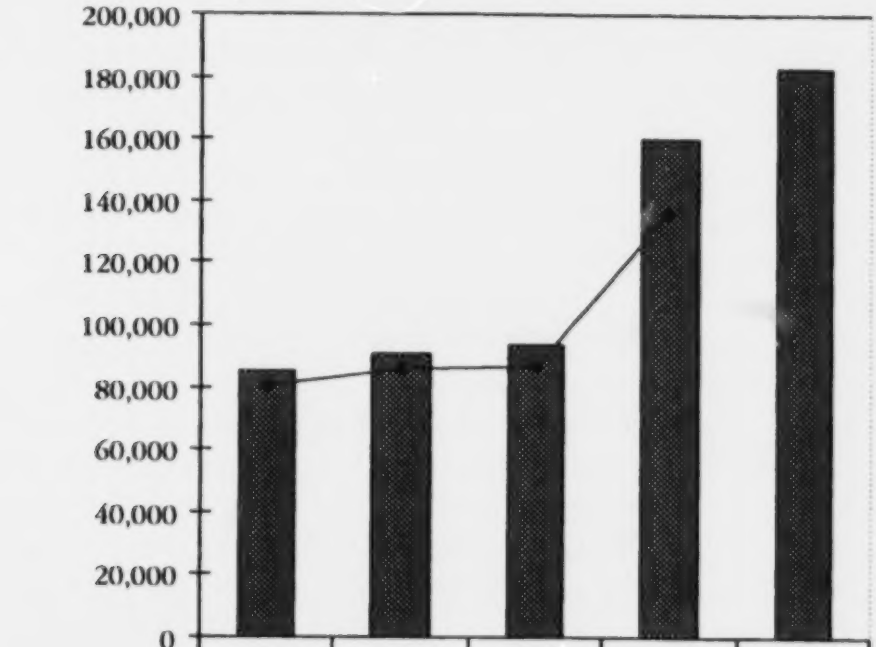
	1996	1997	1998	1999	2000
Budget	20%	20%	19%	17%	15%
Actual	14%	11%	11%	14%	

Figure 2. Provinces – budget v. actual expenditure



	1996	1997	1998	1999	2000
Budget	76%	72%	73%	78%	75%
Actual	83%	82%	80%	74%	

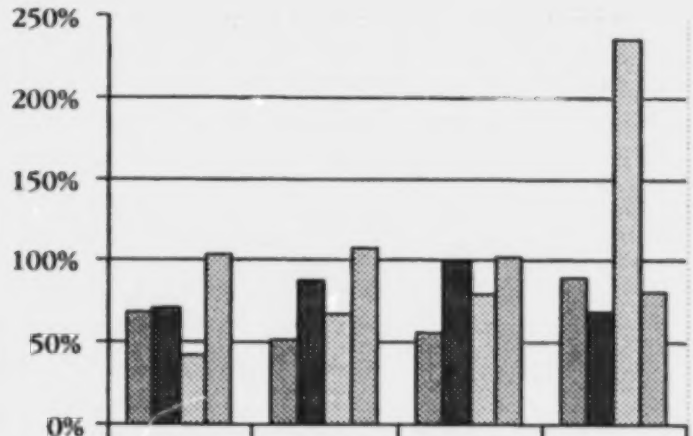
Figure 3. Actual against budget



	1996	1997	1998	1999	2000
Budget	85,465	90,650	93,902	159,770	183,170
Actual	80,550	86,240	87,070	136,300	

1999 estimated from August figures

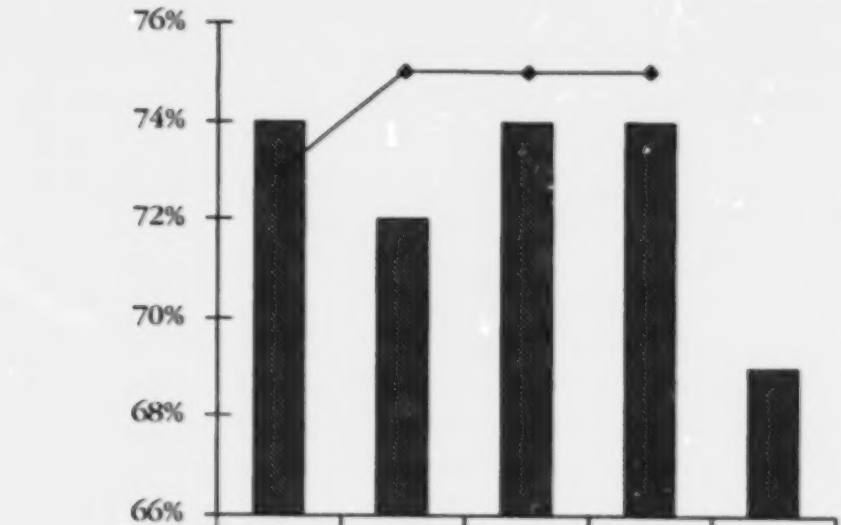
Figure 4. Budget out-turn by sector



	1996	1997	1998	1999*
General Education Sector	68%	52%	56%	90%
Higher Education Sector	71%	88%	99%	69%
Youth and Sport Sector	42%	67%	79%	236%
Provincial	103%	108%	102%	81%

* As a proportion of 8/12ths of the budget

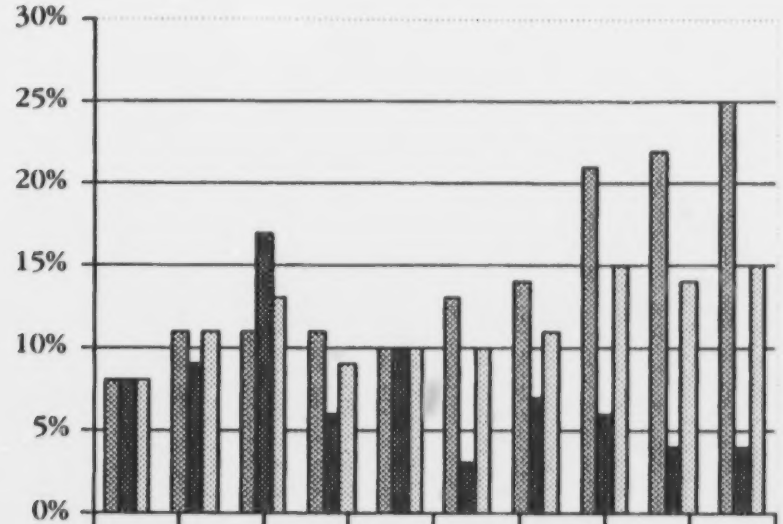
Figure 5. Salaries (Chapter 10) as a proportion of total



	1996	1997	1998	1999*	2000
Budget	74%	72%	74%	74%	69%
Actual	73%	75%	75%	75%	

* 1999 estimated from August figures

Figure 6. Education as a proportion of national budget



	1994	1995	1997	1998	1999	2000	2002	2003
Recurrent pct	8%	11%	11%	10%	13%	14%	22%	25%
Development pct	8%	9%	6%	10%	3%	7%	4%	4%
Total pct	8%	11%	9%	10%	10%	11%	14%	15%

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The book

This report was prepared as part of the IIEP project on comparative analysis of budgetary procedures for education in three low-income developing countries of South-East Asia: Lao PDR, Cambodia and Vietnam.

These neighbouring countries share many similar concerns in the area of educational finance and budgeting as all three are evolving from a centrally-planned type of economy to a market-based economy.

This report provides a detailed description of the challenges faced by educational finance and budgeting in Cambodia. Until recently, financing took the form of emergency budgets, and was limited to government planning expenditure for teacher salaries and examination costs. There has also been a lack of coordination between the provinces and the central Ministry of Education, Youth and Sports at the stage of budget preparation. Parents and communities have had to cover all operational and maintenance costs of running the schools.

The nightmarish past of the country makes it a unique case for any comparative analysis. Cambodia has a wealth of human resources, the potential of which has yet to be harnessed, hence the acute demand for educational development and its financing.

Educational financing and budgeting in Cambodia

The authors

This study on educational finance and budgeting in Cambodia was prepared by a research team, which at the time of the project implementation consisted of Mr Duy Pheng, Director, Department of Planning, Ministry of Education, Youth and Sports, Mr Hang Sovonn, Director, Department of Finance in the same Ministry, and Mr Yos Soly, Financial Controller, Ministry of Economy and Finance, Cambodia.

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